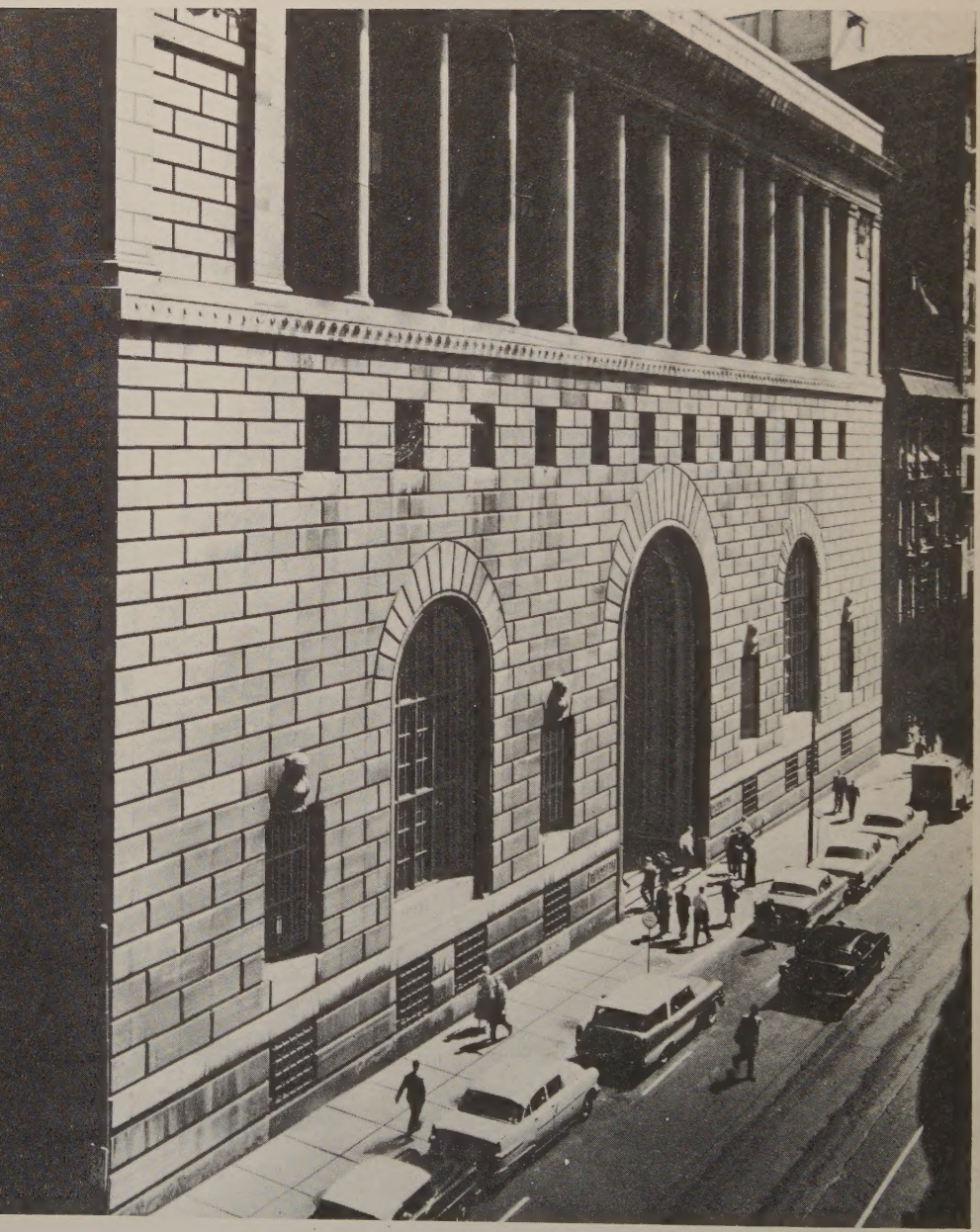
FINANCING FOREIGN TRADE

THE ROYAL BANK OF CANADA

HEAD OFFICE: MONTREAL

FINANCING FOREIGN TRADE



Entrance to the Head Office building of The Royal Bank of Canada,
in the heart of Montreal's financial district.

FINANCING FOREIGN TRADE

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THE ROYAL BANK OF CANADA

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FOREWORD

The development through the years of Canadian foreign trade has made necessary a knowledge of the details of import and export finance and the theory and practice of the foreign exchanges. An effort has been made to assemble in this booklet practical information along these lines.

ACKNOWLEDGMENTS

The compiler has made some use of the following publications, to the authors of which his thanks are due: *The Meaning of Money, Money Changing, and International Finance*, by Hartley Withers; *International Exchange*, by A. W. Margraff; *Foreign Credits*, by A. J. Wolfe; *Paper Work in Export Trade*, by G. E. Snider; *Our South American Trade and its Financing*, by Frank O'Malley of the National City Bank of New York; and *Foreign Exchange Explained*, by Franklin Elscher.

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Foreign Trade

THE constant exchange of goods and services, on a vast scale, is a necessity of the present economic organization of the world. Of this organization, Canada is a typical unit. The manufactured goods, foodstuffs and raw materials, which we can advantageously produce, are exported in exchange for the raw materials of other latitudes and the manufactured goods which can be made more efficiently abroad. Today our foreign trade has reached the tremendous value of ten billion dollars per annum. This is a per capita trade of $625 and the importance of Canada's foreign trade may readily be realized by setting this figure against the gross national product of almost thirty billion dollars — per capita $1,875. We do business with 130 countries and colonies. As in the past our growing population will increase and diversify the products we import and export and create new problems in foreign trade requiring solution. In these circumstances, some acquaintance with the methods of financing foreign trade and with foreign exchange operations should be of use. The present booklet does not pretend to give a detailed analysis of these subjects. It is intended as a brief outline and contains the names of books in which may be found a more thorough treatment of the subjects concerned.

The system which has grown up for effecting payments for the myriad transfers of property involved in foreign trade works with great smoothness and success. It is true that wars and their aftereffects introduce many difficulties which gradually tend to disappear as conditions become more settled. During World War II many countries were forced to establish exchange controls with fixed rates of exchange and various degrees of regulation of imports and exports. While a Foreign Exchange Control Board was set up in Canada in 1939 we have since been able to free the Canadian dollar and no vestige of exchange control remains at time of writing.

Bill of Exchange

A most important instrument in the system of financing foreign trade is the bill of exchange or draft.

Definitions

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person, or to bearer.

A bill is sometimes called a draft, and an accepted bill, an acceptance. The person to whom it is addressed is called the drawee, and, if he signifies his assent to the order in due form, he is called the acceptor. Such assent usually consists of the acceptor writing across the face of the bill, "accepted November 25, 1957, payable at . . . ." and affixing his signature.

A bill is payable to bearer which is expressed to be so payable, or on which the only or last endorsement is an endorsement in blank. This endorsement in blank, which will be referred to later in connection with bills of lading and marine insurance policies and certificates is one in which the name of the payee only is shown, with the name of the signer and his title or authority, as, for example:

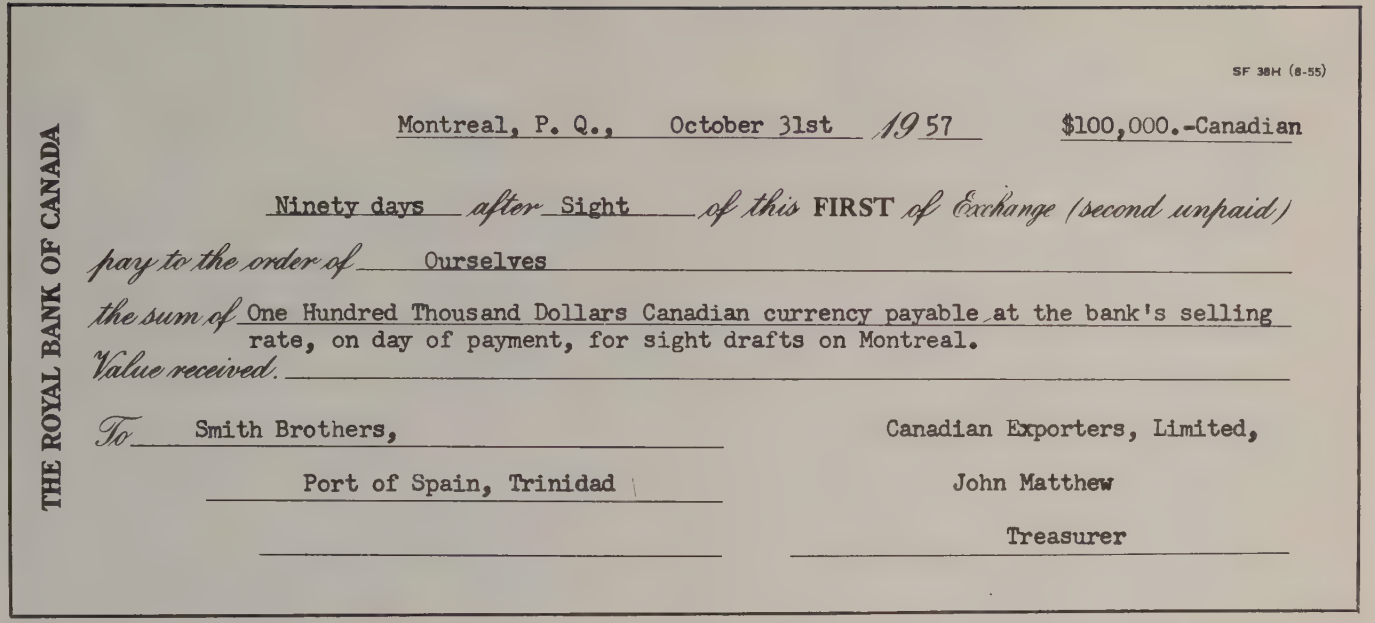
John Doe,
by James Roe
Attorney

This form of endorsement conveys title to the bearer. A special or direct endorsement would read as follows:

Pay to the order of Gomez Brothers & Co.
Canadian Exporters Limited,
John Matthews,
Treasurer

The sum payable by a bill is a sum certain although it is required to be paid with interest; by stated instalments; by stated instalments with a provision that upon default in payment of any instalments the whole shall become due; with collection charges; or according to an indicated or ascertainable rate of exchange.

No special form of words is essential to the validity of a bill, provided that the sense is clear and the bill conforms to the provisions laid



SF 38H (8-55)

THE ROYAL BANK OF CANADA

Montreal, P. Q., October 31st 1957 $100,000.-Canadian

Ninety days after Sight of this FIRST of Exchange (second unpaid)

pay to the order of Ourselves

the sum of One Hundred Thousand Dollars Canadian currency payable at the bank's selling rate, on day of payment, for sight drafts on Montreal.

Value received.

To Smith Brothers,
Port of Spain, Trinidad

Canadian Exporters, Limited,
John Matthew
Treasurer

BILL OF EXCHANGE — TERM DRAFT

down in the preceding definitions. In practice, however, the form of bill seen on page 13 is generally used, and is varied as need arises by the addition of clauses which will be mentioned in the pages following.

In its original form, the bill of exchange was an order exercised by somebody, who, by selling another person goods or rendering him a service, had acquired the right to instruct that person to pay money. Such a draft is the above-mentioned specimen, where the Canadian Exporters Limited, who had sold goods to the value of one hundred thousand Canadian dollars to Smith Brothers of Port of Spain, Trinidad, are drawing on them for that amount. A large number of export transactions result in such bills, drawn by the seller on the buyer, or on some bank specified by the latter. When transactions are conducted on open account, the procedure may be reversed, and the buyer may obtain a bank draft which he will remit in payment to the seller. These open account transactions are based on confidence in the purchaser, and have the disadvantage of not giving the seller any evidence of a sale in the form of a document which he can turn into cash at his bank.

Credit an Element in Foreign Trade

Credit is an element in most business transactions and it can be readily understood it is even more necessary in foreign than in domestic trade since more time is usually taken up by the movement of goods between seller and buyer, when these two are located in different countries. Between Canada and the United States this holds good to the least extent; here goods need take no longer in transit than if they were being shipped by a Canadian wholesaler in the East to his customer in the West. But even in the Canadian transaction it is improbable that the wholesaler would receive cash, or payment against sight drafts. He would draw at thirty, sixty or ninety days, thus giving the buyer an opportunity to dispose of at least a portion of his purchase, and place himself in funds to meet the bill.

When we come to consider shipments to South America or Africa, for example, it can be seen that time is an even greater element. Not only are the goods longer in transit, but custom house delays are also a factor. Here, too, the buyer may wish time to dispose of some or all of the goods before payment.

Drafts which cover staple goods shipped in bulk — wheat, or other primary foodstuffs, such as meat — usually are drawn at short date no

matter what country the buyer is located in. It is in the nature of such commodities that they go into consumption quickly. The funds for payment of the drafts should be available at an early date; and it is not a good principle to extend long credit in these cases. When we come to dry goods, which take a longer time to reach the consumer, longer credits are found necessary; this is true of hardware to an even greater extent, and of machinery to the greatest extent of all. For example, motor buses are often sold by United States manufacturing concerns to Cuban operators on the basis of a cash payment of, say, 25%, the remaining payments being spread over a period of two years. In such cases, the seller retains the title, and ownership of the buses does not pass to the buyer until full payment, plus interest, has been effected.

Credit extended in foreign business as a rule, however, varies from thirty days to one hundred and eighty days. Longer terms are rare and the average is probably sixty to ninety days. England was for many years the main factor in the determination of credit terms to be granted in most of the world's markets and the term of drafts was influenced by the conditions prevailing in her money market. Thirty to one hundred and eighty day acceptances may be bought and sold on the London discount market and the same statement holds good in the money market of the United States.

Credit Information

By our reference to time bills, we have indicated that in the great majority of cases, the seller extends credit to the buyer. This implies confidence, which in turn depends on personal knowledge, or information on the buyer's standing obtained from banks or mercantile agencies. While many long established exporters are intimately acquainted with the business and record of their foreign customers it is generally the practice to obtain periodical up-to-date information on foreign importing clients. Hence the supplying of credit information has come to be one of the most important services rendered by Canadian bank branches abroad. Their connection with local business and markets and their ability to give impartial estimates of the standing and stability of foreign firms makes the information furnished singularly desirable. The Head Office of The Royal Bank of Canada is our centre for distributing these reports in Canada and the same information is made available to United States banks and firms through a Credit Information Department at our New York

Agency. European firms direct their requests for information to our office in London, or Paris.

Who Finances Export?

We have indicated the credit requirements of the buyer, and have said that he tries to avoid, and in most cases does avoid, tying up his capital in goods in transit. Now the seller no more desires to suffer loss through tying up capital than does the buyer; yet that is what he must do when he draws a time draft, and does not receive cash until maturity date. This delay cannot always be avoided, and a certain proportion of exporters' drafts go forward on a collection basis. For the rest, all good exporting houses have arrangements with their banks whereby they can discount sight or time drafts on good names abroad. It is the bank, then, that finances the business. These transactions work out to the benefit of all concerned. The buyer obtains his goods on easy terms; he is willing to offer a shade higher price for the privilege. The seller obtains cash for his merchandise. The bank provides the capital for the short term involved, receives a reasonable return on its money, and has as protection for its loan, (1) the drawee, who the bank will have made sure is of good standing, (2) the drawer, who is a client of the bank, and (3), in most cases, the goods themselves, until shipping documents are handed over to the buyer on acceptance or payment of the relative draft.

Clean Bills

Clean bills are those presented to a bank for collection or discount, without bills of lading, and other documents covering a shipment of merchandise, or stocks and bonds being attached.

Documentary Bills

When a bill is drawn to cover an actual movement of goods from the seller to the buyer and the relative documents are attached to the bill when it is drawn, the bill is known as a documentary bill. Details in respect to documents are given on pages 34 to 48.

Sight and Time Bills

A sight bill, as its name implies, is one payable at sight or upon presentation to drawee. While technically payable upon presentation,

"sight" in many countries has come to mean the date of arrival of shipment at the foreign customs house. As the mails may carry a sight draft to its destination some time before the arrival of the slower freighter carrying the shipment, banks in the countries in which this custom prevails usually await the arrival of the shipment, before insisting upon payment of a sight draft or acceptance of a time draft. If the drawer of the draft wishes to authorize this practice he should indicate that the collecting bank may "hold for arrival of goods". However, this adds to the difficulty of establishing a maturity date in the case of a time draft and is one point in favour of drawing "date" usance bills, which specify for payment so many days or months after date, instead of after sight. It is customary when sending time bills abroad for the forwarding bank to request that it be advised of acceptance of the item and a correspondent or branch which does not give prompt service in this respect should be reminded of its duty.

Since time drafts do not become cash until after a certain interval such a draft is naturally less valuable than a sight draft. If interest, foreign stamp tax, collection and other charges are for account of the drawee, the collecting bank is instructed to add interest and any other charges applicable, in which case the drawer would receive the face amount when the item is presented for discount. The forwarding bank should be particularly careful to give explicit instructions regarding the charges the collecting branch or correspondent is to collect from the drawee.

If the charges on the draft are for account of the drawer the item may be discounted at face value and the charges collected upon receipt of payment. As an alternative, and depending on practice in the particular market in which the bill is being discounted, the exporter may be quoted an all-in rate which would take into account interest, collection charges, etc. Such a rate would be based on experience of the transit period making due allowance for the term of the draft.

In any case the foreign exchange resulting from the discount of the draft will be purchased by the bank from its client at prevailing rates, unless, of course, the drawer has previously protected himself by entering into a forward contract.

Discounts

When we commence to discuss discounts we have to distinguish at once between two kinds of bills. These are:—

1. A bill payable in the currency of the country on which it is drawn,

for example: Pounds Sterling on England.

2. A bill payable in the currency of the country in which it originates, for example: Canadian dollars.

The difference between the two types lies in the way the bank can utilize the proceeds and the question of interest.

In the first kind of bill the bank charges for the loss of interest for the period of time the bill is in transit, or the usance of the bill. With rapid airmail service demand bills can be bought at or close to the cable rates since the foreign balance is available almost immediately, but when the bank purchases a 60-day bill the currency is not available as a free balance until the maturity of the bill. For example, a 60-day sight bill is drawn in Sterling by a Canadian company on a firm in England. This bill is purchased at the rate ruling for 60-day sight items. That rate is lower than the cable rate by an amount which covers the few days airmail time and the term of the bill.

Since the bill is payable in sterling, the bank now has a prospective sterling balance which it can utilize. At the time the bill is purchased the bank might sell 60-day drafts thus regaining the amount paid out for the bill purchased. Actually the bank is more likely to sell demand or cable exchange, putting its account in order by forwarding the usance bills to London for rediscount and depositing the proceeds to their account. Alternatively, the bank could produce sterling immediately by a swap transaction, buying spot sterling and simultaneously selling the same amount of sterling for forward delivery to correspond with the estimated maturity of the sterling bills discounted. Although the bank may recoup itself at once, it must be remembered that in selling time drafts on London the bank has to concede the time rate to the buyers of the time drafts. In the case of swaps when buying spot sterling and selling sterling for forward delivery, the bank produces the Canadian dollar equivalent and in addition must absorb any discount on the forward sale of sterling. Therefore, the loss of interest involved by the seller of a usance bill as compared to the cable rate is reflected in the rate or in the need for absorbing subsequently the interest charges from the date of the negotiation of the bill to the date of payment in London.

In the second kind of bill, exchange cannot be sold against it. If the bill is drawn in Canada in Canadian dollars on an importer in a foreign country the question of transit time in both directions arises. Interest must be charged for the time which will elapse between the discounting of the bill in Canada and receipt of the return remittance to

Canada. If the terms of the draft provide that the drawee must settle at the cable rate of exchange on demand and the funds are cabled at once to Canada, it is only necessary to allow for airmail time in one direction, plus a reasonable delay, say a few days, for handling the item at the point of collection and obtaining payment. The manner in which a discounted draft is handled depends, naturally, upon its tenor, Canadian interest rates, the laws of the foreign country, the customs of the trade, and the airmail time from the place at which the bill is drawn to the place on which it is drawn.

For example, if a draft be drawn at ninety days sight on Caracas, Venezuela, payable in Canadian dollars at the sight rate of exchange an additional two weeks interest would have to be added to the 93 days to cover the estimated time in transit of the goods from a Canadian port, since sight drafts are not generally accepted in South American countries until after the arrival of the goods. If the bank has charged the discount before the draft is mailed it is quite possible that an interest adjustment will have to be made later when the actual remittance is received. Therefore, in order to avoid revising the interest charge banks frequently pay the face amount of the draft and charge for the interest on the day the actual remittance for the draft is received from the drawee.

The incidence of such interest charges and also of collection and foreign revenue stamp charges is a matter for arrangement between buyer and seller. Since foreign firms often resent the addition of detailed small sums of this nature it is wise to include them in the face amount of the draft, or else give the collecting bank authority to waive them in order to facilitate the collection of the draft. For the seller, this entails a slight advance in the quoted price of his merchandise.

The exporter, when drawing drafts covering a shipment, will wish to secure a net amount at least equal to that which he would have obtained in a cash sale. If he sends the relative draft for collection, he is tying up capital and losing interest. If he discounts the draft at his bank, he does not receive the face amount. In either case he expects to be compensated by the buyer. When quoting prices, the terms of payment, therefore, are kept in mind, and quotations are raised to cover the cost of discount, except in the case of certain countries, on which drafts are often drawn for the net amount only, interest being collected from the drawee. In transactions which involve the extension of credit, the seller is entitled not only to compensation for loss of interest but also to compensation for the risk he incurs. The risk naturally varies with the length of the credit.

The longer the time, the greater is the chance of the occurrence of some event which would occasion a loss.

Currency in Which Drafts Are Drawn

The currency in which a draft is drawn depends on the arrangements made between seller and buyer at the time the sale is effected. The object of the drawer of a draft is to secure a certain and definite return from it as, normally, an exporter does not wish to assume the risk of loss from exchange fluctuations. He can best do this by drawing in terms of his own money thus shifting the exchange risk to the shoulders of the drawee or, if the drawer's currency is not quoted and dealt in to any great extent in the country of the drawee, drafts can be made payable in some stable and well-known currency. A large portion of the world's foreign trade is settled on a basis of Pounds Sterling, United States dollars and to a certain extent, Swiss Francs. In all important foreign exchange markets close quotations may be obtained for these currencies and in addition exporters or importers can cover their exchange risk by way of forward contracts. (See reference to the forward market, pages 90 to 93.)

Before the First World War the kind of currency to be used was easily resolved for the Canadian exporter as merchants in most countries preferred making and receiving their payments in sterling. As England had been the predominant commercial carrier all through the development period of international trade in the 19th and 20th centuries London became the natural financial centre. It was convenient to have such a centre where the foreign importer could remit his payments, where the exporter could receive his money, and where bankers and merchants all over the world could keep deposit balances to facilitate international settlements. Such an arrangement provided a great source of profit to Britain and eliminated the exchange risk for British exporters, who were generally able to deal with foreign buyers in terms of sterling. Sterling payment was acceptable to traders in the Orient, in South America, in Africa, in fact, in all countries of the world since they had faith and confidence in the value of the pound sterling and were willing to accept it as a reliable international currency in place of gold coin.

The superiority of British money remained as long as Great Britain controlled a large part of the shipping and trade of the world, and sterling notes and coin could be freely turned into gold. However, this universal acceptance was undermined by the disorganization resulting

from the First World War and the confusion caused by the breakdown of the gold standard. Furthermore, the development of United States foreign trade, the flow of gold to the United States and the extension of U. S. foreign banking facilities all combined to advance the United States dollar as a strong alternative to the British pound. Countries that were unable to keep their exchange stable in terms of gold selected the pound or the U. S. dollar as the basis of value depending on various political and trading considerations, thereby creating the beginnings of the so-called Sterling Bloc and Dollar Area. The Second World War with its varied exchange control systems further advanced the United States dollar at the expense of the pound outside the Sterling Area.

Today most Canadian exporters would prefer to draw in Canadian dollars but the type of product being exported frequently determines the currency to be used. Canadian products in great demand in world markets are often sold on a Canadian dollar basis while products exported to highly competitive markets are priced according to the custom of the trade in that country. However, it may not be advisable to draw in Canadian dollars on some countries since quotations for the Canadian dollar are received much less frequently than for, say, the U. S. dollar or sterling. At such points, the importer who goes to the bank to take up a draft is likely to get a finer or more favourable rate if the draft is payable in U. S. rather than Canadian dollars. The fact that quotations for Canadian dollars are not received as frequently as U. S. dollar quotations is due to lack of volume in the trading of Canadian funds as compared to U. S. dollars. Unless Canada is regularly doing a good volume of business with the country concerned, it does not pay the bank abroad to go to the expense of receiving frequent Canadian dollar exchange quotations by cable.

In some countries the local exchange, import license, or quota regulations, may determine the type of product allowed entry and the currency in which settlement is authorized. Since the Canadian exporter wishes to obtain a negotiable currency he must have a good understanding of these varied and changing regulations.

Before the Second World War, drafts on Great Britain, Australia, New Zealand, South Africa, and countries in the Sterling Bloc were usually drawn in sterling, but today many transactions are expressed in Canadian dollars, or settled for by way of Canadian dollar letters of credit. Drafts on the countries of South America are nearly always expressed in U. S. dollars. Frequently settlement is effected by U. S. dollar letters of credit. Drafts on India and Pakistan are usually drawn in sterling,

while Japanese trade is generally on a U. S. dollar basis.

Drafts on the main European countries used to be drawn in francs, marks, crowns, pesetas or whatever the currency might be, but today this is rarely the case. A few dealings are done on a Canadian dollar letter of credit basis, but the greatest number of transactions are on a U. S. dollar letter of credit basis, and this situation is likely to continue until greater progress is made in restoring exchange reserves and more currencies are made freely convertible.

Exchange Clauses

The fact that a bill is not payable in the currency of the drawee's country at once gives rise to the question of how the conversion rate between the two currencies shall be established. If this were considered a matter for arrangement between the collecting bank and the drawee, it is not difficult to imagine the complications which might arise. Would a bill for $1,000 United States currency drawn on a firm in Caracas, Venezuela, be settled for by the drawee paying to the bank an amount of local currency which, at the current rate, would equal $1,000 U. S. or would the drawee perhaps consider settlement made by the tender of a sight draft on New York for the face amount of the bill — a settlement which would involve a loss to the drawer, if he had expected to be paid by cable? All these and other possible points of issue, are settled by the addition of a clause to the draft indicating the basis on which settlement shall be effected. This clause would read:

> Payable at the bank's selling rate on day of payment for sight drafts on.... (city).....

The clause would be completed by the addition of the name of the appropriate financial centre, i.e., Montreal or Toronto for Canadian dollars, New York for United States dollars and London for Sterling transactions.

Sterling drafts drawn at up to 120 days' sight on South American points are not uncommon. In the case of such drafts, the drawer must realize that he will lose interest, not only during the transit period of the draft and the return remittance but also during the time occupied by the draft in arriving at maturity. Thus, he will have to include in his quotation interest at the prevailing rate, as in the following example:

Transit to and from Argentina and delays	30 days
Elapsed time to maturity date of draft	120 days
	150 days

Some drawees are slow about accepting drafts. Therefore, only experience can show exactly what loss of time should be allowed for in such transactions.

It is advisable to include bank commission and other charges in the face amount, if the drawer expects to recover the amount of his invoice in full without deduction. (See "Collection, airmail and stamp charges" on next page.)

Other Clauses

There are certain special customs in connection with the collection or negotiation through London of bills drawn on Australia, New Zealand, Africa and the Orient. Purchases made in Canada by Australia and New Zealand, or one of the British sections of Africa, are usually done in sterling and the Canadian exporter or his bank either (1) sends his draft for collection to the branch or correspondent of a London bank and eventually receives payment in London, or (2) wishing to receive cash immediately for the bill, sends it to London for negotiation, at the same time despatching the documents required to release the shipment direct to the point of consignation, in order to avoid delay.

Since the war many classes of goods exported from Canada to Australia and New Zealand have been subject to import licence. This and other factors have led to a somewhat greater proportion of business being financed by irrevocable Letters of Credit in either sterling or dollars.

In respect of shipments to New Zealand, drafts, when sent for collection are nowadays more often forwarded direct to the branch in New Zealand of the importer's bank, though proceeds of sterling drafts will, of course, normally be received in London as heretofore.

We give below some of the typical clauses enfaced on drafts:

(1) Bills for collection:

"Payable at the current rate of exchange for sight drafts on London together with all collection charges."

"Payable at the current rate of exchange for sight drafts on London, together with all collection charges and interest at ....% per annum from the date of bill until approximate date of arrival of proceeds in London."

The drawer will ultimately receive settlement in London for the face amount of a bill endorsed with the first of these clauses, and for the face amount plus interest of a bill endorsed with the second clause.

(2) Bills for collection for which drawers are to obtain proceeds in London funds:

No clause required as such bills are payable in Australian, New Zealand or South African funds, as the case may be. It should be noted, however, that from long usage most South African sterling importations are payable in London funds, and if the drawer desires payment in South African funds, it would have to be part of a special arrangement at the time the goods are sold.

(3) Bills for negotiation in London for which drawers are to obtain face amount in London funds:

"Payable with exchange and stamps as per endorsement."

Here the drawer passes his bill to London and receives the face amount of it at once. The drawees have to take up the bill at the rate endorsed on it by the negotiating bank in London. In such cases the exchange between London and Canada is the only uncertain factor, so far as the Canadian shipper is concerned.

(4) Bills for negotiation for which drawers are to receive proceeds in London funds:

No clause required. (Same conditions as indicated for Bills for Collection, No. 2).

It is advisable for the amounts of bills drawn in Australian, New Zealand or South African currency, as mentioned in (2) and (4), to be clearly described as such; otherwise some ambiguity may be occasioned when the bill falls due for payment.

In the case of drafts drawn in sterling on the Far East, where it is intended to negotiate the bills in London and fix exchange there, the bill is claused as in (3) above.

Collection, Air Mail and Stamp Charges

While the collection of these charges from drawees is not unusual in the countries for which specimen draft clauses have been given above, it is the exception rather than the rule elsewhere. The addition of petty amounts of this nature is often distasteful to drawees, and drawers find it more satisfactory to take such items into consideration when quoting prices on goods.

Rebates

There is a certain class of bill which is not rediscountable, and, until payment, remains the property of the drawer or discounting bank.

This is the documentary usance bill with ladings and other shipping documents attached, which are only to be surrendered on payment. Such bills are presented for acceptance, but the documents are not handed over. At any time during the life of the bill the acceptor can offer payment and demand the ladings and other papers. This makes it necessary for the bank which presented the bill for acceptance to retain it and the accompanying documents until payment, as otherwise the acceptor would not know where to get his documents when he needed them. "Documentary Payment" bills, therefore, are not rediscountable as are Acceptance bills; the discount market takes only bills without documents attached. From this it follows that the banker who purchases a "payment" bill is tying up his funds possibly until maturity date; other things being equal, such bills are consequently less liquid and less attractive investments than those marked "documents on acceptance", and they usually command a lower price. An exception to this must be noted in cases where trade custom is to take up the bill at an early date.

Although documentary payment bills are accepted payable on a certain date, the drawee may take them up and claim the goods at any time during the life of the draft. In practice, the drawee does not often allow "payment" bills to come to maturity. When he takes them up he is entitled to rebate of interest on the unexpired time from date of retirement to date of maturity of the draft. He pays the face amount less this rebate, which may be calculated in various ways and is usually a matter of agreement between the drawer and drawee.

One Complete Transaction

By way of illustration we will give a sketch of one complete transaction arising out of an export sale.

A Canadian paper manufacturer has secured an order from an importing house in Havana, Cuba, for Bond paper. We will suppose that the Canadian exporter does not require, in this case, a commercial letter of credit and is willing to extend ninety-day terms. A price of U.S. $350 per ton on a C.I.F. basis is quoted and accepted although, had the Cuban importer been willing to pay cash against documents or provided a letter of credit, a discount of, say, 2% would probably have been allowed.

The paper is placed on board ship at Montreal and insured under the open policy of the selling company. A full set of original bills of lading, usually issued in triplicate, are made out to the order of the shipper and

these, and the certificate of insurance, are endorsed in blank. Commercial invoices in three copies, which may be written in English or Spanish are prepared and must be vised by the Cuban Consul. A declaration must appear on the back of the invoice stating the origin of the goods being shipped. The commercial invoice which must give the seller's name and address, the buyer's name and address, will show not only the price and total cost of the shipment but also the number of packages, their weight in kilos, their measurement and any distinguishing marks or numbers appearing on them. Consular invoices must be prepared in keeping with the requirements of the Cuban Consul. Amongst other things, Spanish is preferred, the metric system is obligatory and gross and net weights are to be shown in kilos. An original and five copies are required to be presented to the Cuban Consul for legalization.

Export entry Form B13 must be completed in three copies and while this document is not one of those which will be attached to the draft it is necessary for customs house records and the gathering of statistical information on imports and exports. These forms may be obtained free from the customs stationery office.

So far as documents go, all is now in order and the shipper is able to draw a draft at ninety days' sight on the Cuban firm covering the invoice value of the paper. In quoting prices the Canadian company had agreed to absorb incidental charges such as stamp tax, the Cuban Public Works tax on the dollar remittance (presently 2%), collection costs, and in addition, interest for the time it will be out its money. The amount collectible on the draft is therefore only the face amount.

Since the bill is drawn in United States dollars, one additional clause is necessary, i.e., "Payable at the bank's selling rate on day of payment for sight drafts on New York".

The draft having been drawn and endorsed, and the complete set of bills of lading and other documents attached, the Canadian paper company takes them to its bank. Being the first time the paper company has sold goods to this Cuban importer they will have notified the bank the shipment is being made and requested information on the standing of the Cuban importer. If the drawer's credit warrants it and the drawee's standing is good the bank will discount the draft, sending it with a complete set of documents attached to Havana, by air mail, with the remaining documents following in a later plane or by sea mail. The letter enclosing the draft should contain all pertinent instructions so as to avoid subsequent correspondence and costly cable messages. Part of these instruc-

tions will be to surrender documents on acceptance and, we may assume, not to protest in the event of non-acceptance but to cable or air mail the Canadian bank for instructions. It should also be clearly stated in the remittance letter what the collecting bank is to do in the event of non-payment.

After the arrival of the goods in Havana the drawee's acceptance of the draft is obtained and the shipping documents are handed over. The bank (or the exporter, if the draft has not been discounted) thus loses the security of the merchandise and will not receive payment for ninety days. It has now, however, the security of the drawee's name on the draft and has always power of recourse against the maker in the event of non-payment.

We will suppose no unforeseen event occurs and that ninety days later the drawee settles his obligation by a cheque drawn in pesos on the local bank covering the amount of the draft at the exchange rate named by our branch for sight bills on New York. Havana Branch, who carry a United States dollar account with our New York Agency would instruct the agency to debit their account with the amount of the draft under discussion. New York Agency in turn would credit the Canadian branch with the United States funds thus received.

If the bill had been taken by us on a collection basis, we would have obtained instructions as to how the drawer wished the funds to be remitted to him. Although the draft read that payment was to be made at the bank's selling rate for sight bills on New York it would naturally be possible to purchase a cable with the amount thus received. While the amount of this cable would be slightly less than the amount of the sight draft, the drawer would save interest by receiving his money on an earlier date.

It should be noted that the documents required vary according to the country of destination and the type of merchandise being shipped. To add to the complexity of the situation all requirements are subject to change and because of this particular care should be taken to ensure that current requirements regarding documentation are abided by meticulously. A large exporting firm may have their own traffic department prepare and process the documents required for each export shipment, whereas a smaller firm may prefer to engage the services of an International Freight Forwarder to handle these details for them.

Could quotations have been made and the transaction carried through in Canadian dollars? The answer to this is "Yes", qualified by the statements that the Cuban buyer may not be as familiar with this currency

as he is with United States dollars. Also Canadian dollar transactions handled in the Cuban market would not compare in volume with the American dollar transactions, thus the Cuban buyer may not obtain as fine a rate for Canadian as for United States exchange. For these reasons dissatisfaction may arise and it bears emphasis in the export business that quotations should be made in a currency familiar to the prospective customer and on which he can readily obtain close quotations through his local bank. Each case has to be decided on its merits. The main point is to have the buyer clearly understand the situation.

Drafts on Foreign Firms for Collection

Most banks have a special agreement with clients for whom they handle the collection of drafts, which agreement is usually incorporated in a general Waiver of Protest form. This excludes liability for loss in connection with same, and declines responsibility for documents handled, for merchandise which they may be called upon in the course of events to take over, and for the solvency of their agents or correspondents. Banks undertake, however, to use all care and diligence in the interest of their client. The banker's interest in the matter is limited, then, to the provision of efficient service. It is immaterial to the banker whether the bills are clean or documentary, and he does not care on whom they are drawn, or the time they have to run. What he does require, in order to render good service, is a definitely worded draft, and a clear understanding of his client's wishes. If the drawee is to pay interest, collection and stamp charges, the draft should say so. If a drawing on, say, Lima, Peru, in Canadian or United States dollars or Sterling is to be settled at the bank's selling rate for sight exchange on Montreal, New York or London, or if payment is to be effected by cable through the appropriate centre, or in any other manner, the draft should contain a clause to that effect.

For a specimen of the instructions which may be given a bank when a bill is placed with it for negotiation or collection refer to page 128.

Protest

When a drawee refuses to accept a bill or does not provide payment at maturity, it may be necessary to protest the item in order to protect the holder's rights against previous endorsers and the drawer and to facilitate legal action against the party or company concerned. The act of protesting

usually consists of having a notary visit the customary address of the drawee, present the bill and draw up a document over his signature stating the reason given, if any, for non-acceptance or non-payment, or stating that the drawee could not be found. A copy of the bill is included in this notarial document. It may be advisable to protest both for non-acceptance and for non-payment, calculating the time the bill has to run from date of protest. However, as the necessity to protest bills and the legal effect of this action varies from country to country, exporters should acquaint themselves with the practice in this regard concerning countries to which they export.

In some cases, where small amounts only are involved or other special considerations arise, drawers of bills instruct the collecting bank not to protest. In many foreign countries the protesting of bills entails quite high charges and, in addition, is resented by the drawee. It is always preferable that definite instructions be given to the collecting bank regarding protest, and these instructions should be meticulously followed by the bank which presents the bill for acceptance and payment. In many countries the time limit within which protest may effectively be made is quite short — for example, not later than 1 p.m. on the business day following maturity of an accepted bill.

It sometimes occurs that banks will refuse to handle items subject to protest. Bills drawn on parties living in the country, or at small places where no bank branch is located, or no practising notary is to be found would obviously be of a class which no bank would like to deal with if they were accompanied by instructions to protest in the event of non-acceptance or non-payment.

In spite of what they legitimately can do to protect themselves from undue responsibility, banks are forced to take considerable risk in connection with the collection business they conduct. During good times, things run smoothly, the volume of collections is good, the necessity of constant presentation of bills to drawees is rare and the bank's fractional commission charge often covers expenses and yields a moderate profit. Not so when business conditions deteriorate. While the volume of collections falls off, they become much more difficult and troublesome to handle, as drawees put up excuses to avoid payment, protests multiply, merchandise is refused and has to be warehoused, insured and sometimes sold. At such times the risk in this business becomes apparent. A misunderstanding of instructions, a slip on the part of a clerk — failure to protest in time — and a substantial loss is incurred. It may happen that the bank's

action is in no way responsible for loss incurred by drawers of bills, but in some cases advantage is taken of a legal technicality to hold the bank liable.

Such things are, of course, only a part of normal banking business, but a realization of them is desirable, both from the point of view of impressing on the staff the necessity for care, and of indicating to clients the difficulties and costs of handling collections.

Drafts Discounted or Advanced Against

Here, while the banker requires no less in the way of definite wording and instructions than he does in the case of drafts for collection, many other considerations arise as well from the fact that the bank's own money is at stake. Thus, short term bills are preferable to long term ones, since every day added to the term of a bill increases the risk of the occurrence of some unforeseen event which might be productive of loss. Documentary bills covering shipments of goods are preferable to clean bills; in the case of the former, the bank holds the goods as security, at least until acceptance of the relative draft. And of documentary drafts, those covering shipments of staple, non-perishable and easily liquidated products, are the most attractive. Highly perishable goods, or high-priced merchandise for which there is only a narrow market, cannot be considered as giving a documentary bill a much higher standing than a clean bill, the drawer and drawee of which are well rated. In fact, clean bills on good names might easily be more attractive to discount than documentary bills covering perishables, if the names on the latter bills represented only moderate worth.

The negotiation of clean bills is tantamount to making an unsecured loan to the drawers, with the added security of the drawee's name after acceptance. Such bills are naturally discounted only for clients of good standing.

In discounting both documentary and clean bills, the bank's main security, in the first instance, lies in the responsibility of the drawer. In the case of any trouble with the drawee, the bank is in a weak position unless its power of recourse to the maker is reasonably certain to be productive of satisfactory results. Drawers, therefore, must have a capital adequate to bear the loss which may easily arise from an unfortunate export transaction. The extra risk contained in export business does not lie in the greater lack of probity of foreign houses, but in the room which exists for

errors and misunderstandings on account of the distances separating buyer and seller, and the difficulty and expense of conducting a long distance legal action. Misunderstandings are specially liable to arise in the case of transactions effected by correspondence. Litigation is often a lengthy and expensive process; in many cases the results are not worth the outlay.

The essential credit element which underlies the discounting of all drafts is probably not clearly understood by all business men, and it is not an uncommon thing for a firm which has been unable to finance an export shipment to criticize its bankers for their refusal to discount drafts covering the merchandise. This firm has probably been told, quite truly, that exporting involves the granting of credit. It now gets a profitable and relatively large order from a foreign house on whom good reports have been received. The terms may be sight, thirty or sixty days — quite moderate credit — yet the bank may be unwilling to discount the seller's documentary drafts. The Canadian firm cannot understand the refusal since, in its opinion, the bank is fully covered by the merchandise until acceptance, and, in the case of sight drafts, until payment. The answer is this: that this security of merchandise is often more apparent than real: that many causes for refusal of delivery may crop up, and the goods may then be thousands of miles from a good market, and unsaleable except at a great sacrifice. The sole backing is then the capital of the drawer. Where this warrants the extension of the credit involved, the draft will be discounted. Firms of the class that we have referred to were probably of moderate capital, though of good standing. Their domestic business used up their resources to the hilt; and an unsuccessful excursion into the export field for other than a moderate amount might have brought them into a bad position, and left a slow loan on the hands of the bank which thought it was discounting a self-liquidating bill. Whether for domestic or overseas trade business men must cut their coat according to their cloth. Firms of moderate capital should accept only export orders for reasonable amounts.

In the case of bills that have not been discounted but have only been advanced against up to a certain percentage of their face value the bank's risk is naturally lessened. The percentage amount which would be advanced against any particular group or class of bills would be a matter for arrangement and negotiation between the banker and his client and would vary greatly depending on circumstances. The advance may be made on an individual transaction in which case the receipt of the proceeds

closes the matter. The exporter is credited with the amount of the draft plus interest if this was not included in the face amount. He is debited with collection and other charges and with the amount of the advance plus interest. The balance, i.e., the difference between the credit and debit amounts, remains at his disposal.

It would not be unusual for a bank to authorize a credit for say one hundred thousand dollars, covering advances on documentary bills up to a maximum of eighty per cent of the invoice value of the shipments concerned, and a provision made for the credit to revolve. As drafts advanced on were taken up by the drawees, the amount they represented would be available for fresh advances.

Single Name Bills

This term applies to bills of which the drawers and drawees, or acceptors, are of one and the same responsibility. This is the case where a bill is issued by a firm in Montreal on its branch house in London. The bill is still, in effect, a single name one when the drawee is not a branch house, but a controlled though separate company. It is necessary to be familiar with the financial relationship, if any, between drawer and drawee. Such bills have only one name as security, as any financial embarrassment of drawers usually would involve the solvency of drawees. Other things being equal, these bills cannot be considered as good as double name bills, where drawer and drawee are in no way connected financially.

SHIPPING DOCUMENTS

Documents

The interest of the bank in documents covering a shipment is present whether the relative drafts are presented for collection or for discount. In the former case, the interest is based on our desire to give our client efficient service, and to avoid unnecessary trouble for our foreign branches or correspondents. In the latter case, the interest is a more vital one, since the shipment evidenced by the documents forms part of the bank's security. Most important of all from the bank's point of view is the case, which we shall deal with later, of documents supporting a draft drawn under a letter of credit. Here the responsibility for accuracy lies with the bank. Once our London Office, for example, has accepted a bill drawn under a letter of credit, it cannot go back on its acceptance if it is discovered afterwards that the documents are out of order.

The documents which must be made out to cover export shipments from Canada vary according to the country of destination. It is impossible, then, to give more than a general outline of what they may consist of, and to indicate the usual requirements.

Accuracy and completeness are a prime necessity in documents covering export shipments. This may seem obvious, but it bears emphasis, since both requirements and penalties are greater beyond comparison in foreign than in domestic trade.

As consignees cannot, in the ordinary course of events, obtain goods at the port of destination without surrendering a bill of lading, and possibly various other documents, these must be forwarded to arrive at their destination not later than the goods to which they refer. Normally this is accomplished by sending the original draft with the necessary docu-

ments attached by airmail, while the duplicate draft and documents follow by a later airmail or by fast steamer mail. In some countries, consular regulations require a consignee to produce documents within forty-eight hours after the arrival of the goods. Failure to do so involves their storage at the steamship dock and the incurrence of heavy charges. Carelessness in the drawing of documents also may cause the levy of fines upon consignees by the foreign customs authorities, and such fines are naturally a fruitful source of bad feeling.

The documents covering an export shipment usually consist of:-

All negotiable copies of the bill of lading (vised, if necessary, by the Consul of the country of destination).
Insurance policy or certificates of insurance normally issued in duplicate.
Consular invoices.
Commercial invoices.

and in some cases:

Certificate of origin.
Certificate of inspection.
Certificate of analysis.
Packing list.
Health certificate.

As a precaution against loss, bills of exchange on foreign drawees are invariably made out in duplicate, and are forwarded by successive mails; to the original draft a complete set of documents is attached, and the duplicate draft will be accompanied by a negotiable bill of lading, a commercial invoice, a certificate of insurance and any other documents required.

Three negotiable copies of the bill of lading usually are issued by the steamship company. Where bills of lading have to be presented in duplicate or triplicate at the foreign Customs House in order to effect release of the shipment, it is usual to forward only one negotiable bill of lading with each set of documents, the second and third ladings being non-negotiable copies. These latter are made out by the shipping companies just for the purpose of filling customs or other requirements, and they are clearly marked as non-negotiable. The number of documents to be prepared by the exporter sometimes assumes formidable proportions. This is an inconvenience which the exporter must bear for the sake of business. It is useless to question the requirements, they have to be fulfilled.

Ocean Bills of Lading

The bill of lading is a receipt given by the carrier and is also a contract between the carrier and the shipper. It is signed by the agent of the carrier.

The specimen bill of lading shown here contains the clauses which, with minor variations, are found in all such bills.

As a receipt the bill of lading contains an opening clause along the following lines: "Received from the shipper named below the goods or packages said to contain goods hereinafter mentioned in apparent good order and condition unless otherwise indicated in this bill of lading." Other variations are: "Received from.....to be shipped on board.....", "Shipped on board", and "Received on board". The carrier is bound only to deliver what is received; he is not bound by the description of the contents.

Ocean bills of lading are of two classes, "Received for shipment" and "Shipped" or "On Board". The first two opening clauses mentioned in the previous paragraph indicate that the bills of lading are of the "Received for shipment" type. They are issued by the steamship company after the relative goods are in their possession and space has been reserved on a particular named steamer. The two latter illustrations are from "Shipped" or "On Board" bills of lading which are issued only after the goods have been loaded on the vessel. A "Received for shipment" bill of lading may be converted to an "On Board" bill of lading by the addition of a clause, attested to by the party completing the bill of lading, indicating that the goods have actually been loaded. When preparing or checking documents under a letter of credit which calls for "On Board" ocean bills of lading, care must be exercised to see that the bill of lading is of a type that leaves no doubt that the relative goods have actually been loaded on board the vessel.

At the foot of each bill of lading is found a clause similar to the following:

> "In witness whereof the master or agent of the said vessel has signed.....bills of lading all of this tenor and date, one of which being accomplished, the others to stand void."

We have already stated that of the three original bills of lading usually made out, two are sent in successive mails to the consignee, accompanied by the necessary shipping documents. Some shipping companies

now issue only two original copies of a bill of lading unless particularly requested otherwise. In any case, the number of original bills issued is always indicated in the clause at the foot of the bill.

The full set of negotiable ladings must be obtained from the drawer of the bill of exchange since only in this way is control of the shipment secured. It is, of course, apparent that the documents are valueless unless all negotiable bills of lading are included. When they are not the relative drafts are no better than clean drafts. The necessity of securing this protection only arises when the bank has discounted the draft or for some other reason requires to control the shipment. If the bill is being negotiated under the provisions of a letter of credit, all negotiable bills of lading must be obtained and disposed of, along with the other documents called for, as instructed by the opening bank.

Railway Through Export Bills of Lading - Canada

Through export bills of lading can be secured from Canadian Railways to cover the movement of export freight from shipping points in Canada via St. Lawrence River, Canadian Atlantic and Pacific Coast Ports to most foreign countries in connection with steamship services which have agreements with the railways in respect to the issuance of such documents.

Straight and Order Bills of Lading

A "straight" ocean bill of lading is one in which the shipment is consigned direct to some named party. On such bills it is possible for anyone holding the arrival notice, and representing the consignee, to obtain possession of the merchandise.

An "order" bill of lading is one in which the shipment is consigned to order of the shipper, title to the goods being given by possession of the bill bearing the shipper's endorsement. In the case of many export shipments, this endorsement is in blank, thus vesting title in the bearer of the lading, instead of in some specified firm or individual who alone could obtain possession of the goods. In some cases bills of lading, instead of being made out to order of shippers, are made out to the order of the bank. Here the endorsement of the bank is required to make a lading negotiable. In many cases the order bills of lading bear instructions to "Notify.....", the buyer of the goods.

While the straight bill of lading is merely a receipt on a contract

of affreightment, the order bill is actual evidence of title to the merchandise. Since negotiability is usually the prime consideration, order bills are the most used; and it is only order ladings endorsed in blank, or ladings made out to order of the bank, that can be considered as security for bills of exchange discounted.

It is not a general practice to make out bills of lading in favour of the bank, since, in many countries of the South, this may involve us in obligations to pay customs duties, fines and storage charges. Straight bills of lading in favour of the bank have this advantage, that the bank is the only party who can obtain possession of the goods. Order of shipper bills of lading blank endorsed, if lost in transit, could be presented by anyone, and in many countries there are circumstances under which the party to be notified under an order bill of lading may secure possession of the shipment.

"To Order — Notify"

The clause in the order bill of lading instructing notification of a third party is added for convenience, and results from a tacit understanding between those concerned. In other words, to avoid the risk of leaving the goods on the quays, or the incurrence of warehousing charges, the shipper indicates to the shipping company a third person who should be notified, and, if the occasion arose, could intervene. In some countries the third party can in no case secure the goods unless he presents a negotiable bill of lading. In other countries, if the bill of lading has not arrived, he may secure the shipment on provision of a banker's guarantee, which consists of an order for the delivery of the goods, and an undertaking to produce the bill of lading. There are some countries where the guarantee may be furnished by an approved firm or individual.

Cases have arisen of merchants requesting a bank to furnish a guarantee in this connection, although they knew that bills of lading and sight drafts covering the shipment were in the possession of another local bank. After selling the goods thus obtained on one bank's guarantee, the draft held by the other bank was presumably paid. Such a practice can be prevented by the bank advising the Customs House of the fact that bills of lading covering specified shipments are being held by it.

In general, "order" bills of lading constitute the most satisfactory security which is obtainable under present conditions. We note that they are prohibited in Venezuela, and the customs authorities there will,

upon payment of duties, deliver goods to the consignee whose name appears on the consular invoice, without demanding any further proof of ownership. In Colombia there are so many possibilities of complications that direct bills of lading are frequently used. When shipments to such countries are sent direct it follows that the consignee's credit standing requires most careful investigation. Where control of the goods is desirable this is maintained by consigning the shipment to a reliable firm of customs brokers at the port of entry with whom arrangements could be made that the shipment is not released to the importing firm until the relative draft has been paid. Even better, of course, would be to have the purchases financed by means of bankers' credits.

When dealing with bills of lading care should be exercised that they are not allowed to become stale. A bill of lading and, in fact, all documents covering an export shipment, should be dealt with as soon as received. If the export is covered by a letter of credit the necessary documents should be assembled and a drawing made under the credit promptly, even though the relative credit may have some time to run to expiry date.

Marine Insurance

Railways, as common carriers, are liable for loss or damage in connection with goods they have accepted as freight. This is not the case with steamship companies, whose liability is a strictly limited one, and arises mainly from loss or damage caused by negligence in loading, or in stowage, or in proper delivery of cargo. The carrier is obliged to provide a seaworthy ship, and officers and crew chosen with reasonable care. For their errors or omissions it is not responsible. The bill of lading covers possible liabilities very completely, and the general result is that the steamship company is exempt from responsibility for by far the greater part of the mischances which are liable to befall goods in their transit from one country to another. The risk is not normally borne by the owner of the goods, but is shifted to the shoulders of the insurance company. If reliance is placed on a documentary bill of exchange offered for discount, banks should obtain an insurance policy or a certificate of insurance under an open policy or other acceptable evidence to the effect that insurance has been covered by the drawee.

Insurance policies or certificates, like bills of lading, should be made out to order of shippers or drawers, and by them endorsed, so that the loss, if any, may be collected by the holder of the policy or certificate;

in cases where bills of lading are made out to order of the bank, insurance policies or certificates should have loss made payable to the bank. A shipper is entitled to insure for an amount covering the invoice price of his goods plus freight and other charges. The cardinal point in inspecting a marine insurance policy is to make sure that it covers the risks to which the goods may be exposed.

Exporters would normally seek the advice of a qualified Marine Insurance Broker as policies can be obtained to guard against practically any eventuality which may arise. Cover can be arranged which is tailor-made to suit the particular business in hand, be it a movement of fine china or iron ore.

A marine insurance policy normally covers goods from the time they leave the warehouse at the point of shipment until they are delivered at the destination named in the policy. This coverage is as outlined in the "warehouse to warehouse" clause. Under the terms of a Deviation Clause goods are held covered in case the ship is diverted from her ordinary or planned course, although this coverage, while automatic, calls for an additional premium under certain circumstances.

If goods are to be shipped on deck care should be exercised that proper coverage is obtained as such goods are normally insured free of claims for damage arising from exposure to the elements. While pilferage is not covered in certain policies it can be written in, and in general exceptional risks not provided for in any particular policy may be included by special arrangement.

Average

In foreign trade usage, i.e., in marine insurance policies, the word "average" is customarily used to signify partial loss or damage. There are two kinds of average — General Average and Particular Average.

General Average

General Average is peculiar to maritime adventures. It is the partial loss arising out of a voluntary sacrifice made of any part of the cargo or any part of the ship to endeavour to prevent the loss of the whole, and made for the benefit of all persons at interest. The voluntary sacrificing may take the form of jettisoning part of the cargo or cutting away part of the ship, such as the masts, to prevent foundering, or it could be the water

damage caused to goods in fighting a common peril such as a fire in the hold of a vessel.

The persons at interest would be the various owners of the cargo, the owners of the ship itself, together with the operators of the ship who are interested to the extent of the freight earned. (Of course, if the freight or any part of it is prepaid this amount will be included in the value of the goods.) If the voluntary sacrifice saves the ship the value of the jettisoned cargo, or whatever the case may be, becomes a charge pro rata against the entire value of the ship, freight and cargo.

The adjustment of claims resulting from a General Average loss is determined by General Average Adjusters. The preparation of such an adjustment in the case of a large steamer loaded with miscellaneous cargo, possibly owned by hundreds of different shippers or consignees, is a task involving tremendous detail. The Adjusters may demand security for the payment of charges before they will permit goods to be released. In the case of uninsured goods the owner would be required to make a cash deposit sufficient to cover the estimated charges. As marine insurance covers the risk of General Average the Adjusters would usually be willing to accept the guarantee of the underwriters for claims against insured property.

In "Lloyds Calendar — 1955"* there is an interesting article on Page 221 dealing with the origin of General Average which reads as follows:

"The origin of General Average is lost in the mists of antiquity. Historical records, however, show that it was a system in force in the very earliest days of seaborne traffic, and had for its object the attainment of safety from a peril threatening the joint adventure by encouraging the owners of cargo to permit their shipmaster to make a judicious and timely sacrifice of their property in the knowledge that their loss would be made good to them by rateable contributions from the other interests on the completion of the voyage.

"The first legal recognition of this custom appears in the Rhodian Law, and reads as follows:—

> The Rhodian Law provides that if in order to lighten a ship merchandise is thrown overboard, that which has been given for all shall be replaced by the contribution of all.

"Time has proved the wisdom and equity of this old custom, which

*By permission of the Editor of Lloyd's Calendar and Messrs. Ernest Robert Lindley & Sons.

is now universally recognized as a law of the sea by all maritime countries and is in most embodied in the form of a General Average Code. In England, however, no such code exists, and although at first sight this may appear to be a drawback, it is not so found in practice as the records of numerous decisions in our Courts of Law, combined with the Rules of Practice of the Association of Average Adjusters, which in many instances are derived from the old customs of Lloyd's, provide in themselves an adequate working system based upon knowledge acquired by actual experience, the authority of which has been still further strengthened by the Marine Insurance Act of 1906. This Act contains a definition of General Average (Section 66) which has already been quoted as an authority by our Judicature in a law case involving a purely General Average question.

"Section 66 of the Act reads as follows:—

(1) A General Average loss is a loss caused by or directly consequential on a General Average Act. It includes a General Average expenditure as well as a General Average sacrifice.

(2) There is a General Average Act where any extraordinary sacrifice or expenditure is voluntarily and reasonably made or incurred in time of peril for the purpose of preserving the property imperilled in the common adventure.

(3) Where there is a General Average loss, the party on whom it falls is entitled, subject to the conditions imposed by maritime law, to a rateable contribution from the other parties interested, and such contribution is called a General Average contribution."

Particular Average

Particular Average is a partial loss or damage which is not a General Average loss. It is a partial loss suffered by a particular shipment. Particular Average claims arise from accidental causes such as stranding, collision, fire, water damage and so forth and, of course, has no connection with a jettisoning or similar operation. Marine insurance is often written which does not cover partial losses except in certain circumstances and, in this case, the policy is said to be "Free of Particular Average". Alternatively, the insurance may cover partial losses which amount to more than a stated percentage of the value of the shipment. This is similar in many ways to automobile collision insurance which is often written with a stipulated deductible amount for which the insured is himself responsible. However, in a marine policy, claims are paid in full if they amount to or

exceed the stated percentage. Sometimes an "All Risks" policy is written with a fixed amount deductible in order to minimize petty loss claims.

F.P.A — Free of Particular Average — The form of clause commonly used in marine insurance policies reads "Free of Particular Average unless the vessel be stranded, sunk, burnt, on fire or in collision". This indicates that the insurance does not cover partial losses unless caused by one of the marine perils mentioned.

W.A. or W.P.A. — With Average — With Particular Average — Clause commonly used reads "With Average if amounting to 3% or the vessel be stranded, sunk, burnt, on fire or in collision". In this case partial losses are paid if the damage amounts to 3% or more of the insured value of each package. If any of the marine perils mentioned are encountered, all losses, partial or otherwise, are fully covered.

In placing marine insurance an exporter would give due consideration to the type of merchandise involved when deciding whether to carry the risk of partial loss.

The present day marine insurance policy is broad in coverage. Gaining experience with the passage of time, and spurred on by competition, underwriters have assumed more and more of the risks faced by merchants who trade in foreign markets.

The basic form of marine policy has remained practically the same throughout the years, changes in coverage being effected by the addition of printed or stamped clauses. Interpreting a marine insurance policy calls for knowledge of the principles and practice involved and it is interesting to quote a passage from a book by William D. Winter entitled "Marine Insurance" which deals with "Printed, Written and Stamped Words" and reads as follows:—

> *"All policies consist in part of printed and in part of written or stamped words. The basic part expresses that which is common to all marine-insurance policies. The added portions set forth those facts and agreements peculiar to the particular policy. It therefore is presumed that the added portions were the subject of special consideration by the parties. When these portions are in conflict with the basic form, they overrule or control it. It is these added words and clauses which give rise to most of the disputes in the interpretation of policies. The meaning of the basic form is well

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known, but who can know what will be the effect of some ill-considered clause which is demanded by an assured because he thinks it gives him increased protection? It may be so worded as to invalidate some of the basic or implied terms of all marine-insurance policies and leave him with less protection than he would have with a policy in the usual form."

In a large percentage of cases the exporter will wish "All Risk" coverage. However, even policies which contain an "All Risk" clause may exclude certain specific risks. For instance, paragraph 5 of the Institute Cargo Clause reads:

"This insurance is against all risks of loss of or damage to the subject-matter insured but shall in no case be deemed to extend to cover loss damage or expense proximately caused by delay or inherent vice or nature of the subject-matter insured."

While the exclusion of coverage for damage caused by inherent vice (or the nature of the goods being insured) is most reasonable, nevertheless some underwriters will cover even this damage in their "All Risk" policies. Typical examples of inherent vice would be, fruit rotting, meat becoming putrid, wine souring or internal rotting of potatoes.

A marine insurance policy is to provide protection against perils of the seas. If a vessel springs a leak as the result of an accidental occurrence the damage caused would, of course, be a charge against the underwriters. However, when a leak occurred because of the unseaworthy state of the ship when she sailed or from wear and tear or natural decay, underwriters for many years disclaimed liability. Today the seaworthiness of the vessel as between the assured and the underwriters is admitted so as not to prejudice an innocent assured for any wrongful act or misconduct of the ship owner or ship operators. However, the basic marine rates are established on the assumption that the cargo will be carried in an approved vessel meeting the requirements of the Institute Classification Clause, e.g., not over 20 years old (occasionally amended to — not over 25 years old) and not under 1,000 tons net. The basic marine rates would be subject to increase if a vessel is operated out of the trade for which it was built. Additional premiums levied for over-age, low tonnage, or out of usual trade are called "Vessel Penalties". Such rates are established and promulgated by a special committee comprised of marine underwriters from several insurance companies. These Vessel Penalties are obligatory and are not competitive.

All risks of war are excluded from a marine policy as is also

damage caused by rioters, strikers and locked out workmen. At the present time all these risks may be covered by an endorsement on the policy at a very reasonable rate.

Exporters should note that in certain circumstances insurance cover on goods going to the Argentine must be effected with an Argentine insurance company. This has been the case since 1948 when Argentine Law required that insurance cover be placed locally if the insurable risk is for account of the Argentine importer.

Open Policies

Most of the cargo insurance written today is under what is known as an open policy, which is a contract between the insurance company and the shipper, by which the insurance company binds itself to protect by insurance, in accordance with the policy conditions, all shipments made by the assured, automatically from the moment the shipment leaves the factory, store or warehouse at initial shipping point in the interior, until delivery at factory, store or warehouse at destination, the consideration being that the assured shall, as soon as practicable after they have knowledge thereof, report all their shipments to the insurance company, and at the end of each month, pay the premiums on shipments reported in accordance with the schedule of rates attached to the policy.

The insurance company furnishes the assured with a supply of certificates to be used and countersigned by them as needed, thus obviating any delay. A specimen certificate will be found on page 135.

The certificate contains particulars of the shipment, its value, destination and markings. Usually, but not always, two certificates go with the documents, one copy goes to the underwriters and one is a file copy; it should be noted that the English courts have decided that when a policy of insurance is called for under a letter of credit or a sales contract, a certificate of insurance cannot properly be substituted. In order to avoid trouble it is advisable, unless buyers lack confidence in the probity of sellers, to allow the latter the choice of furnishing either a policy of insurance or a certificate issued under an open policy.

Consular Invoices

While consular invoices are not required by all countries, this document shares with the bill of lading and insurance certificate the dis-

tinction of being one of the most important in export trade when it is made obligatory by the regulations of a country. These regulations are strictly enforced, the penalty for non-observance, as far as South American countries are concerned, being heavy fines.

The number of copies which must be presented to the consul of the foreign country for his signature varies, but the necessary information can be obtained from the consuls. It must be remembered that unless all requirements are lived up to, the set of documents is not complete and will cause trouble to the importer and our branches or correspondents abroad.

From the consular invoice the foreign government calculates duties to be paid and great care must be taken to see that the declaration is properly made so that the goods will be charged the duty which properly applies to them. As foreign customs tariffs are very complicated, this is a point which requires careful investigation. In many countries, if there is a discrepancy between the information given in the consular invoice and the shipment itself, a fine is imposed, and the same is sometimes true if a mistake is made in the classification or quantity shown on the consular invoice.

Invoices generally call for the name of the shipper, vessel, consignee and port of destination; mark, number and weight of each package; character of package employed; details of merchandise, including general description, and an indication of the component materials (important for customs classification), gross and net weight in kilograms, detailed price and total value.

Foreign custom houses often rule that weights and measurements must be shown in the metric system. Except for shipments to the United States and England, it is preferable always to use this system, with or without the weight in avoirdupois being shown as well.

A consular invoice is shown on page 140.

Commercial Invoices

Commercial invoices often are required in duplicate with each set of documents. They have to contain full details, and the use of trade abbreviations, or the omission of weights or measurements considered unnecessary, may cause considerable trouble to the consignee. The information contained in the consular invoice is practically equivalent to that

which should be placed in the commercial invoice. The numbers, marks and other details given on the documents we have discussed must agree exactly with each other.

Our remarks above on the subject of metric weights and measurements are naturally applicable to commercial invoices as well as to consular invoices. Charges for freight, insurance and other items should be shown separately. Prices must indicate whether they are f.o.b. port of origin, f.o.b. port of destination, c.i.f. or f.a.s., as the case may be. For definitions of these terms, see pages 110 to 124.

A sample commercial invoice appears on page 142.

Other Documents

Certificates of Origin

Certificates of Origin are required by the Customs' authorities of a number of countries and assume special prominence when shipments are being made to countries which grant Canada tariff preference. While various forms are required by the different countries to which Canadian exporters ship their goods, the proper forms can be obtained from commercial stationers or the Consulate of the country concerned. Interested Canadian exporters can obtain information from the International Trade Relations Branch of the Department of Trade and Commerce at Ottawa. Many of the Boards of Trade, or Chambers of Commerce across Canada have up-to-date information concerning the documents required to cover shipments to various countries and can be of considerable assistance to their members. For example, during 1955 and 1956 the International Trade Section of the Montreal Board of Trade published and distributed to their members circulars outlining in detail the documents required covering shipments to most of the countries with which Canada carries on trade.

Packing Lists

When numerous units are being shipped, it is sometimes found more convenient to give the necessary details as regards weight, measurement and contents of each case on a separate form — the packing list. The same number of these is required as of Commercial Invoices.

Certificates of Inspection

On perishable shipments certificates of inspection or health certificates are usually required. These have to be secured in some cases from the Government; in other cases, from the resident Consul of the country of destination.

In some industries special inspection certificates are required, as for example, export lumber shipments from the West Coast of Canada are usually certified as to quantity and grade by the Pacific Lumber Inspection Bureau.

COMMERCIAL CREDITS

Letters of Credit

A considerable volume of international business is financed by means of bankers' letters of credit. The terms of these vary greatly, credits being drawn to meet the requirements of individual transactions. All such letters of credit, however, have certain characteristics in common; all are an authorization for some seller of goods or services to draw drafts with the bank's guarantee that they will be paid. However, in the case of revocable credits this promise is contingent upon advice of cancellation not having been received. The bank thus places the security of its name behind the buyer and in the case of irrevocable credits this security cannot be taken away against the will of the beneficiary. Here lies the main point of attractiveness of commercial credits from the seller's point of view; he is assured of obtaining payment for his goods, provided he lives up to the terms specified. On the other hand, the buyer, provided he is able to satisfy his local bank as to his standing and the legitimacy of his requirements, can have his orders accepted by almost any firm in any country of the world.

It should be noted that a commercial letter of credit is not a performance bond nor is it a guarantee of the quality or quantity of the goods shipped. If the buyer requires assurance as to quality or quantity of goods it would be necessary to employ the services of an inspection agency in the country of export.

Parties to a Commercial Letter of Credit

The principal parties to a commercial letter of credit are:

(a) the bank which establishes the credit;
(b) the importer or buyer for whose account it is established;
(c) the seller or beneficiary who is authorized to draw;

(d) if the credit is transmitted to another bank, that bank may be instructed to notify the beneficiary, usually negotiates drawings and, if requested by the establishing bank, confirms the credit to the beneficiary;

(e) the paying or accepting bank (generally one of our branches), on which the beneficiary is authorized to draw.

Clean and Documentary Credits

Credits may be either clean or documentary. A clean credit is one in which payment is made to the beneficiary against his receipt, or against a clean draft.

Most commercial credits are documentary, payment being made by the bank against delivery of the full set of documents called for by the terms of the credit.

Types of Commercial Letters of Credit

Credits may be either revocable or irrevocable and the latter may be confirmed or unconfirmed. Credits may also be revolving, transferable or transferable and divisible. The paragraphs immediately following give the main characteristics of each type of credit.

Revocable Credits

A revocable credit is addressed to a correspondent or a branch of the issuing bank and may be modified or cancelled at any time by the establishing bank without obligation to notify the beneficiary. Modification or cancellation takes effect upon receipt of proper notification sent to such correspondent or branch by the establishing bank.

Banks do not confirm revocable credits since confirmation would render them irrevocable as far as the confirming bank is concerned. The final clauses of such credits are often phrased as follows:

"This credit is revocable at any time, on notice to that effect being given to the bank to which it is addressed."

"Bills drawn in compliance with the terms of this credit and negotiated prior to receipt of notice of revocation will be duly honoured on presentation."

It should not be assumed that revocable credits carry no obligation on the part of the bank which establishes them. That bank cannot cancel transactions under revocable credits after they take place — that is, after

the drafts are negotiated. For example, if a cable to New York cancelling such a credit were to be delayed in transmission, the bank sending the cable would have no grounds for refusing payment of a draft negotiated on or after the day on which the cable was despatched, but before its receipt at destination.

Revocable credits should invariably be addressed to a bank and not to the beneficiary. If they were addressed to the beneficiary, notice of revocation would also have to be addressed to him, thus rendering it impossible for any bank which was requested to negotiate drafts, to ascertain definitely whether the credit was still in force, without going to the expense of cabling the bank which established the credit.

Irrevocable Credits

An irrevocable credit is an undertaking of the opening bank which can neither be modified nor cancelled without the agreement of all the parties concerned. Upon issuing an irrevocable credit the opening bank normally hands it to the customer for whom it was opened so that he may forward it to the beneficiary. If the customer desires, the opening bank would forward it to a correspondent or their branch at the point where the beneficiary will wish to negotiate drawings. The correspondent or branch would pass on to the beneficiary a copy of the credit or advise the beneficiary, on their own form, of the opening of the credit but in either case, without responsibility on their part. The advice to the beneficiary closes with words similar to the following:

> "This letter is solely an advice of credit established by the above mentioned correspondent and conveys no engagement by us. We shall be pleased to have drawings presented to us when they are ready for negotiation."

Such a letter of credit would be irrevocable as far as the opening bank is concerned but not confirmed by the advising correspondent.

When it is necessary for an irrevocable credit to be confirmed to the beneficiary by another bank arrangements for the confirmation would be made by the opening bank. Such confirmation is usually avoided unless necessary as it is customary for the confirming bank to charge a commission. It would be necessary, for example, when the bank establishing the credit was practically unknown in the beneficiary's country; in such a case, confirmation of the credit by a local bank would enable the beneficiary to negotiate drafts drawn under it much more readily.

Confirmation is quite different from simple notification to a bene-

ficiary that a bank has received advice of the opening of a credit in his favour. The advice of the confirmed credit will conclude with a binding sentence such as:

> "We confirm the credit and thereby undertake that all drafts drawn and presented as above specified will be duly honoured by us."

The confirming bank is responsible from the date on which such confirmation is given until the credit expires. The relative letter of credit would then be irrevocable as far as the opening bank is concerned and confirmed by the correspondent bank.

Revolving Credits

A revolving credit is designed to provide for a series of business transactions between the same parties where these are more or less regular and continuous, at least over a certain period of time. There are two main types of such credits which may be described as follows:

1. A credit which indicates the maximum amount of drafts which may be outstanding at any one time. When this maximum is reached the paying bank may negotiate additional drawings only to the extent that drawings previously negotiated have been paid and advice of such payments received from the establishing bank.
2. A credit which provides for a drawing or drawings up to a certain maximum amount in any one month or other fixed period. It is a normal precaution in establishing a credit of this type to indicate whether an amount not drawn in any period may be drawn in a subsequent period, i.e. to state whether drawings are cumulative or non-cumulative.

Generally speaking, revolving credits are issued in revocable form so that it is possible to cancel the letter of credit should the party on whose behalf it is opened fail to take up one of the drafts promptly on presentation. The bank should exercise special care when establishing revolving credits to see that the credit risk incurred is clearly understood. Where the credit is of a type which specifies a maximum amount outstanding the risk is a simple one to determine. However, with a credit permitting drawings up to a certain amount monthly and particularly if the drafts thereunder are to be drawn at, say, 90 days sight, possible liability is not as clear cut. Under such a credit, issued on a revocable basis, drawings could be outstanding to the extent of four or five times the stipulated monthly amount. If, on the other hand, the credit is an irrevocable one the bank incurs a risk

calculated by multiplying the maximum permissible monthly amount by the number of months for which the credit is originally issued.

The occasional vagueness regarding the maximum amount of drafts which may be outstanding at any one time is a possible bad feature of revolving credits. In one case a branch established a revocable revolving credit in New York providing for payment of sight drafts "not exceeding $5,000 covering shipments by any one boat". The branch establishing this credit had it in mind that only one shipment would be made each week and that the maximum amount of drafts outstanding would not exceed $10,000. There were, however, three sailings a week from New York, to the nearby port at which the branch in question is located. Under the terms of the credit the amount of drafts outstanding might have risen to $30,000.

Loose wording — the bane of any letter of credit — is especially dangerous where a revolving provision is embodied. Full comprehension by the issuing branch of the liability it is incurring, and by the negotiating branch of the liability it is permitted to incur, is essential.

Transferable Credits

Transferable credits are issued in favour of a named beneficiary "or his assignee". The party in whose favour the credit is issued has the right to assign it to a new beneficiary but to do so, must advise the bank on which drafts are to be drawn through the correspondent, if any, from whom the credit was received. In giving such an advice the name of the new beneficiary will be stated and from then on the effect will be the same as if the credit had originally been issued in favour of this new beneficiary.

Transferable credits may also be divisible, in which case the original letter of credit may be assigned in whole to one beneficiary or in part to several beneficiaries. It is necessary for the original beneficiary to advise the bank of all transfers.

Where credits are transferable, or transferable and divisible, it is usually self-evident by the terms of the credit. The beneficiary may be stated as "John Doe or his assignee" or the credit may be enfaced "This credit is transferable and divisible" or with another suitable clause.

Currency of Credits

Letters of credit specify the currency in which drafts against them shall be drawn and the same conditions which we have spoken of as deter-

mining the currency of ordinary documentary drafts, decide also the currency which commercial credits will call for.

A buyer, who is establishing a credit in favour of a seller, knows that the main concern of the latter is to have some sure means of obtaining the proceeds of his sale, quickly and easily. The more satisfaction the buyer gives in this respect, the more favourable will be the price which the seller is willing to quote. The buyer, then, will want to establish his credit in a currency familiar to the drawer and to the drawer's bankers, a currency widely quoted and dealt in, drafts drawn in which command ready sale.

Two other points will have a bearing on the currency used in expressing a sales contract and the resulting letter of credit. The first of these is Exchange Control, for, if there is an Exchange Control Board operating either in the country of import or export there may be only one currency permitted under their regulations. Secondly, there is the matter of the competitive situation as regards the particular product involved, i.e., whether there is a buyer's or seller's market. Obviously, if there is considered to be a buyer's market for the goods concerned the seller will not risk insisting on a specific currency for fear of losing the sale. If the reverse is the case and there is a seller's market the exporter will probably be able to insist on terms quite favourable to himself. In such circumstances, of course, the best assurance of payment the exporter can have is a letter of credit expressed in his local currency and confirmed by a local bank.

This is the play of the market place and is, of course, subject to change without notice. At any given time you will find some Canadian exporters selling their products on the basis of United States dollars, others on the basis of sterling and still others on the basis of Canadian dollars. While many other currencies would be used in the thousands of transactions making up a year's import and export business in Canada, these three, U.S. dollars, sterling and Canadian dollars, would account for all but a small fraction of the total.

Cost of Bankers' Credits

The bank issuing a commercial credit lends the security of its name to the client for whom it establishes the credit and for this service charges a commission. Generally speaking, the charge is based on two things — first, the length of time the credit itself is outstanding, and,

secondly, the term for which the drafts under the credit are drawn. Depending on the type of letter of credit, the issuing bank may be required to pay the drawee bank commission on all payments and if the credit is to be confirmed a small commission will accrue to the confirming bank.

Cable Credits

When credits are opened by cable the following clause should be written or stamped on the face of all the forms mailed in confirmation.

> This is documentary confirmation of a credit established by wire through..... It is available only for such amount as has not already been availed of under such wired advice and may not be availed of at all unless attached to and as part of our correspondent's notification of such wired advice, the two jointly constituting evidence of the outstanding amount of credit.

If this clause is omitted the receiving branch or correspondent might act on both the cabled message and the confirmation which would result in the opening of two letters of credit where only one is intended.

Cable credits require careful checking before being despatched to see that all the necessary details are incorporated, as incomplete messages usually lead to the incurring of unnecessary cable expense and delay.

Reimbursement from Clients

Misunderstandings sometimes arise as to the proper method of obtaining reimbursement for sight or demand drawings under credits with the result that the amount collected from the client is inadequate. In the case of all credits payable at some point other than the branch which initiates the transaction, it should not be overlooked that the bank is entitled to either (1) the cable rate of exchange plus interest from date of payment by the branch or correspondent on which drafts are drawn to date of reimbursement at our branch, or (2) the demand rate of exchange plus interest from date of payment by the branch or correspondent on which the bill was drawn, until estimated date on which the covering remittance would reach that branch or correspondent by mail. It will be seen from the foregoing that apart from the commission charged, which is the bank's legitimate remuneration for providing the guarantee afforded by the letter of credit and for the responsibility of examining the documents, etc., the transaction yields the bank no more than if the customer

had purchased from it a draft with which to remit payment to the seller of the goods.

General Remarks

The stipulations which may be made in establishing a commercial credit are numerous. It would be difficult to exaggerate the importance of carrying them out to the letter. We have referred above to the care which should be exercised by a bank in satisfying itself as to the accuracy and completeness of the documents attached to foreign bills presented for discount. Far more important are the documents attached to drafts drawn under letters of credit established or confirmed by us; once the drafts are accepted or paid, the bank is committed. If an error has been made, the party for whom the credit was established cannot be made to take up the drafts. The bank negotiating, accepting or paying drafts drawn under a letter of credit covering shipments of merchandise, is not responsible for the quality or quantity of the merchandise; the buyer must be satisfied as to the integrity of the exporter before he closes the transaction at all. But the bank is absolutely responsible for the fulfilment of the conditions specified in the credit itself. If the credit expires on the 15th of May, no draft drawn or presented after that date can be accepted. A letter of credit which provides for drawings at sixty days' sight, cannot be availed of by drafts of any other term, whether these would be advantageous to the party establishing the credit or not. If drafts are to be drawn for ninety per cent of the invoice value of the shipment, this amount must be the maximum. Note here that the bank satisfies itself from the commercial invoices attached to the draft as to whether this provision has been carried out. If the invoices are false, the fault does not lie with the bank, and the buyer can be compelled to settle.

The smallest detail cannot be overlooked. All the documents required have to be presented — bills of lading made out exactly as specified — two or fifty consular invoices attached, if they are called for. No matter how unreasonable a demand may seem, there is probably some reason for it, and, in any event, it is a case where the bank must not take a risk.

During a period of rising prices, those who have purchased goods under letters of credit, or the banks which have authorized their correspondents to negotiate the drafts, raise no objections on minor points. The reverse is true when prices are declining, since a shipment, on arrival,

may be worth considerably less than its invoice value. In one case some years ago, a foreign bank opened a credit with one of our branches, authorizing payment of the drafts of a certain shipper, provided that these were accompanied by a full set of shipping documents, including a certificate of inspection signed by an official inspector. This foreign bank later refused to recognize its liability, on the ground that the inspector, though fully recognized in the trade, did not enjoy the official character stipulated. In a case such as this, the bank which negotiated the drafts has to sell the goods and take its loss, or institute a lawsuit against the drawer or the correspondent — a painful and expensive proceeding.

Every care must be taken to see that the bills of lading covering shipments agree with the terms of the letters of credit. All credits have a definite expiry date and drafts must be negotiated not later than such date. If an "on board" bill of lading is specified the goods, of course, must be actually loaded on board the vessel by the expiry date of the credit and this fact indicated by the terms of the relative bill of lading. If the credit merely calls for "ocean bills of lading" paying banks in some countries, particularly those which abide by Uniform Customs and Practice, will normally accept "received for shipment" ladings. While a "received for shipment" bill of lading may be dated within the expiry date of the credit the actual shipment might not be effected until after that date. Sellers should examine credits on receipt to make sure they will be in a position to deliver bills of lading, and, in fact, all documents, in accordance with the requirements of the credit.

Mention is made above of Uniform Customs and Practice, which are uniform regulations to govern the handling of commercial documentary credits set up by the International Chamber of Commerce in cooperation with the banking committees of a number of countries. The provisions of Uniform Customs and Practice will be found on pages 96 to 107.

Commercial Credit Forms

A letter of credit is a letter issued by a banker, authorizing a specified firm or person, to value (draw) on some named bank or other party for an amount or for amounts not exceeding in all a stated sum, and guaranteeing the acceptance and payment of the drafts, if drawn in accordance with the terms specified in the letter. A specimen letter of credit issued by this bank is shown on page 132.

Letters of credit are issued in sets — a set being made up of an

original, a non-negotiable copy and an office copy. The forms are disposed of in one of the following ways:

Procedure No. 1

The *Original* is handed to the customer, who usually sends it direct to the beneficiary. (This fact should be confirmed by the customer at the time the credit is opened to avoid misunderstanding). The *Non-Negotiable Copy* should be forwarded to the bank or branch on which the credit is drawn or at which it is made payable, and the *Office Copy*, with the customer's agreement on the reverse side, duly signed, retained by the issuing branch.

Procedure No. 2

In this case the *Original* together with a *Non-Negotiable Copy*, is addressed to the bank or branch at which the bills may be presented for negotiation with instructions to advise the beneficiary. An additional *Non-Negotiable Copy* should be forwarded to the branch or correspondent on which the drafts will be drawn provided it is not the one to which the *Original* and first *Non-Negotiable Copy* have been sent. The *Office Copy* will be dealt with in the same manner as under Procedure No. 1.

The customer should be provided with a *Non-Negotiable Copy* of the credit for his files.

A customer who desires this bank to open a letter of credit on his behalf should complete an application on Form LC 146. A specimen of this form is given on page 130 and it will be noted that on the back of the form appear instructions to assist in completing the application. A properly completed application gives all the particulars necessary for the issuing bank to open the credit and the details, of course, should be in keeping with the underlying sales contract.

Wording of Credits

(1) Avoid such phrases as "against complete set of shipping documents" and "usual documents", as they put the negotiating bank in the position of not knowing just what documents may be required and to whose order bills of lading should be made out.

(2) When opening credits with availability, say, at New York, London or Paris, but calling for shipment from some other point, use the words "Shipments to be made on or before .....19...". The

date on the relative bill of lading will indicate whether shipment has been made within the time specified. The final date for negotiation of bills which would normally take place at the point of shipment is shown as an expiry date in the letter of credit. This latter date may be the same as the final date for shipment or a few days later for the convenience of the shipper.

Do not use "This credit expires on ..... 19..." as the branch or correspondent would not know where the expiration date is effective. In cases where credits are made available at New York and London covering shipments from the Far East or certain points in South America, the correspondent through whom they have to be opened sometimes refuses to act when an expiry date is given other than at the point of shipment.

(3) Avoid incorporating in the credits numerous details covering the merchandise to be shipped. Specifications of this nature should be covered in the contract between buyer and seller with which the bank is not concerned. The simpler the wording, the less risk for the bank through technicalities. A complicated and detailed description of the merchandise will not assure the buyer that he receives goods according to specification, for, as mentioned earlier in this chapter, if the buyer requires assurance as to quality and quantity of goods it would be necessary to employ the services of an inspection agency in the country of export.

(4) When opening credits covering merchandise specified in weights, measures or quantities (such as coal, lumber, etc.,) the words "about" or "approximately" should precede the amount of the credit as well as the quantity to be shipped. This allows a deviation of 10% more or less.

(5) Credits providing for usance drawings should ordinarily be made available by drawings on our branches or correspondents located in the proper financial centre depending on the currency involved, i.e., London for Pounds Sterling, New York for United States dollars, etc. In this way the beneficiary secures a Banker's Acceptance which can be discounted by him at favourable rates.

The Legal Force of Letters of Credit

Declining prices in 1920 induced many houses to try to avoid their obligations under Letters of Credit established at their request. Hence arose numerous lawsuits, the decisions in some of which are of value for the light they throw on the legal standing of this useful instrument of

foreign trade. The surety and unassailability which constitute the chief virtue of irrevocable credits fortunately have been upheld. The cases we quote were decided in the United States, but the general principles they lay down are applicable in this country and in England as well.

In the case of the American Steel Company versus the Irving National Bank, the United States Court of Appeals, in a decision rendered April 6th 1921, said: "There is but one vital question involved in this case. It is whether the Letter of Credit already set forth herein is a complete and independent contract between the plaintiff (the beneficiary of the credit) and the defendant (the bank issuing the credit). This court is satisfied that it is, and that the defendant gave authority to the plaintiff to draw upon it up to the sum of $43,250, and impliedly promised to pay drafts so drawn and accompanied by certain specific documents, provided the drafts were drawn and presented prior to the expiry date of the credit."

In a later case involving the importation of sugar from Java, the importer sought permanently to enjoin the seller from negotiating and the bank from honouring, drafts drawn under a credit issued by the National City Bank of New York. There was an agreement that the buyer had the option of cancelling the contract to purchase as to any portion of the sugar contracted for that could not be shipped in the months specified. The Letter of Credit contained the following provision, an excellent example of an irrevocable credit: "We hereby agree with bona fide holders that all drafts, issued by virtue of this credit and in accordance with the above stipulated terms, shall meet with due honour upon presentation at our Export Commercial Credit Department, if drawn and negotiated not later than the period indicated." There was no reference in the letter to the buyer's right of cancellation.

The buyer claimed that the initial shipment of sugar was not made until after the time specified, and he, therefore, elected to cancel the contract as to the shipment made, and as to the remainder of the quantity he had contracted to purchase. The seller denied that there had been any breach of contract that gave the buyer the right to cancel.

The injunction to restrain the negotiation and payment of drafts under the Letter of Credit was refused by the lower court and the decision sustained on appeal. The contention accepted by the courts was that there were two distinct contracts, one between the buyer and seller of the sugar, being the contract of purchase and sale, the other between the National City Bank and the seller and the holders of drafts drawn and negotiated in reliance on the Letter of Credit. Under the contract represented by the

Letter of Credit, the bank agreed to pay drafts in accordance with its terms, regardless of any agreement between the buyer and seller as to the right to cancel the contract of purchase and sale, for no such agreement had been referred to or made a part of the Letter of Credit. It is a recognized principle of long standing, established by an English Chancery Appeal decision in 1867, that holders in good faith of drafts upon a Letter of Credit are entitled to the absolute benefit of its terms, and are not concerned with differences existing between the parties to the contract out of which the Letter of Credit was issued.

It is equally clear that a bank issuing a Letter of Credit is in no way concerned with any contract existing between other parties interested. "It would" said the New York Appellate Court, "be a calamity to the business world engaged in transactions of the kind mentioned in this complaint, if, for every breach of a contract between buyer and seller, a party might come into a Court of Equity and enjoin payment of drafts drawn upon a Letter of Credit issued by a bank."

The decision, in effect, was that drafts properly drawn and negotiated under the Letter of Credit had to be paid, and that if there had been any violation of the terms of the contract by the seller of the sugar, or if the bank had paid any drafts not in accordance with the terms of the Letter of Credit, the buyer's remedy lay in action for damages against the respective parties.

An Import Transaction

We will suppose that a reliable client of the bank asks us to establish an irrevocable credit in favour of a firm in Santos, Brazil, covering a shipment of coffee to the Canadian firm; the credit is established in United States dollars, and authorizes sight drawings on our New York Agency up to the full invoice value of the coffee, all shipments to be made prior to a certain date. The credit is addressed and sent to our branch in Santos, which advises the beneficiary; the duplicate goes to our New York Agency; the copy, with the client's signed agreement on the reverse side, stays in our files.

The Letter of Credit having been received, the Santos firm makes the shipment, and draws a draft for the full amount. This draft is not necessarily sold to our Santos Branch. Other banks would be willing to buy it on the strength of the advice of the Letter of Credit. We will suppose, however, that the Brazilian firm takes its draft to our branch. This

draft, in United States dollars, is paid for in Brazilian cruzeiros at the rate of exchange for which we are then buying sight drafts on New York.

The drafts, bills of lading and other documents attached to each draft, are forwarded to New York by successive mails, with the exception of one bill of lading and two commercial invoices which the credit will have stipulated shall be sent by the negotiating branch direct to our branch which established the credit. That branch receives the documents. Whether the importer in Canada settles with us at once, or whether he is to be made a loan for the amount is a matter which will have been decided upon prior to the establishment of the credit. In any event, the amount he has to settle for is the face value of the draft at the ruling rate for telegraphic transfers on New York, plus interest from the date the draft was paid by our New York Agency to date of settlement in Canada. There are, however, no interest charges to be added if the Canadian firm provides funds to take up the sight draft promptly on its arrival in New York, because the question of interest during the transit period from Santos to New York does not affect the buyer of the coffee. The seller of the coffee draws his sight draft in United States dollars on our New York Agency and the bank in Santos purchases this bill at the current rate for sight drafts on New York. The amount of cruzeiros offered in exchange will take into account the transit time involved in forwarding the bill to New York.

As payments are made to the beneficiary in Brazil, they are endorsed on the letter of credit. When the full amount has been utilized, or when the credit expires — whichever event comes first — the Letter of Credit is dead and the transaction closed.

Credits to be availed of by Time Drafts

The usual procedure in this case differs slightly from that outlined for a sight credit. The seller in Brazil would have been instructed to draw his drafts, at perhaps ninety days' sight, in United States dollars on our New York Agency, or in sterling on our London office. This would be satisfactory to him as, on exhibiting the Letter of Credit, he could readily discount such drafts with our branch or with his local bank, which would forward them, with the relative documents attached, to its correspondent in New York or London for presentation and acceptance at our office in the city concerned. As in the case of the sight credit, the negotiating bank would be requested to forward the documents necessary

to effect release of shipment direct to our branch which established the credit. The remaining documents would accompany the draft, would be surrendered on acceptance, and forwarded by our New York or London Office to Montreal, together with advice of the amount of the accepted draft and its exact due date. The branch in Montreal is then in a position to pass this information to the client for whom it established the credit, notifying him at the same time that he must provide the necessary funds to cover the accepted draft at least one clear business day prior to its due date in New York or London. This is as called for in the agreement our customer signed at the time we issued the letter of credit for him.

By the time he was so notified, he would probably be in possession of the consignment and the due date of the draft still would be over two and a half months away. The buyer has, therefore, practically two and a half months in which to dispose of the goods and settle with the bank for their purchase price.

This is an excellent method of financing for firms whose banks are satisfied to establish credits for them on this basis.

The terms on which the shipment is turned over to the importer is a matter of arrangement with the bank. Depending on the financial standing of the importing client the goods may be released against a trust receipt. The effect here is virtually that of an unsecured loan as the bank has no physical control over the goods involved and the relative bill has two months or more to run before payment is due. In cases where an importer is bringing in shipments which are large in relation to his financial resources, arrangements may be made to warehouse the goods under control of the bank. As the goods are sold they will be released to the client on payment of a proportionate amount on account of the relative indebtedness.

As was stated above, except when some time elapses between date of payment at the drawee branch and date of settlement by the client, no interest charges have to be paid by the latter; this is true also of credits availed of by time drafts. If our branch in Santos purchased ninety-day sight bills drawn on New York or London it would allow for the length of time the U. S. dollars or sterling would be outstanding in quoting on the transaction.

A Canadian Export Transaction

The Letter of Credit transaction referred to above covers an im-

port transaction in which the buyer in this country opened a credit in favour of a seller in another country. The reverse operation, in which we receive notification from a branch or correspondent that a Canadian house is authorized to value upon us in Canadian dollars for account of a foreign firm, is not a complicated one. The most important feature in it has already been stressed, that is, the necessity of a close examination of the documents to ensure that these conform to the terms of the credit as advised us.

When the Letter of Credit is addressed to us, or when the credit is cabled, we immediately notify the beneficiary that such credit has been opened, and advise him of the conditions upon which payments thereunder will be made. It is highly important that our letter to the beneficiary should embody all the details. Our letter will, in fact, be couched in practically the same terms as the advice received.

Letters of Credit issued by Canadian banks are very similar in form and are, in general, clear in their meaning. Because of the difficulties in translation, and for other reasons, this is not always the case with credits opened through us by foreign banks. Not only should we see that the beneficiary clearly understands exactly what such credits authorize and require, but we should make sure as well that we ourselves realize the meaning of all the provisions embodied, and understand what the credit permits. If the beneficiary glances over the terms, and then locks the Letter in his safe without grasping its exact import, he is storing up trouble and possibly loss for himself, certainly embarrassment for us, when he comes to cash his drafts. If we do not fully understand the terms of the credit, we may go contrary to, or outside of, its terms — with the result that liability for the drafts cashed may not be admitted by the foreign bank.

To return to the Letter of Credit transaction under discussion.

If documents attached to the draft presented for payment are in order, the draft will be honoured and documents forwarded according to instructions, the account of our branch or correspondent being at once debited with the amount. If we are to draw on our correspondent for the amount, our drawing must include interest from date of payment of draft until date of receipt of return remittance.

Trust Receipts

The form of trust receipts varies greatly, but the purport of them

all is practically the same. The importer acknowledges receipt of the goods, the bona fide property of the bank, and undertakes to sell the goods for account of the bank handing over the proceeds as specified in the trust receipt itself.

There is more form than substance to a trust receipt, since many articles, once taken into the importers' warehouses, lose their identity, and form no special basis for recovery of the amount they represent. A great deal depends, then, on the standing and credit of the firm which signs the receipt. Theoretically, the goods, being hypothecated to the bank as collateral security for the due payment of the advance, remain within the bank's disposition, the importer merely acting as its agent and trustee in the matter of turning over the proceeds when realized. In actual practice, it is tacitly understood that the client has full possession of the merchandise during the time that the acceptance has to run. In the last analysis, it resolves itself into granting the client a clean credit on the latter's written undertaking to protect the bank.

Trust receipts, of course, differ completely from warehouse receipts, or any other form of arrangement which prevents the debtor from exercising complete control over the goods.

Other Forms of Credits

The credits discussed above have been all more or less standard types; in practice, they take a variety of forms. In Brazil, for example, sales of coffee to the United States are often financed by drawing 90-day sight documentary bills on banks in New York under credits opened by these banks. It is a feature of the market, however, that many of the credits are not advised direct to banks in Brazil. The seller may receive a cable from the buyer telling him to draw on a certain bank, or he may be in possession of a cable from a bank giving him authority to draw. From the point of view of the bank which is buying the exchange, these cables are not authentic proof of a credit having been opened, but banks in Brazil nevertheless take exporters' exchange up to very substantial amounts on the strength of the exporters' statement that the transactions are bona fide. Usually the banks have the protection of the merchandise, but in many cases will take the bill on a clean basis against the exporter's promise to deliver the documents within 30 days. The well established coffee exporter is too jealous of his credit reputation to risk discounting bills which do not represent actual sales, and which have not been authorized. During the

transit and handling, and perhaps partial disposal of the coffee in the United States, it is financed by these 90-day sight bills, and the New York money market provides the funds.

Shipments to the Sterling Area are also financed to some extent in a similar manner but an increasing number of credits call for the drawing of sight bills, as is the case of most shipments to other European points.

THE MONEY MARKET

The Money Market

The money market is in effect a central market where temporary surplus funds of various types of organizations go to find income-producing employment without sacrifice of liquidity, and where short term needs for funds are satisfied usually at interest rates that are advantageous to the borrower. Many factors aid in the development of an international financial centre where such conditions are found, and there are certain prerequisites to the existence of a money market, probably the most important of which are:

(1) The existence of entire confidence in the governmental and currency situation of the country concerned.

(2) A substantial demand for and supply of floating capital available for short term investment.

(3) An organization of banks whose resources and experience qualify them for handling the business transacted in such a centre, both domestic and international, on a large scale, together with acceptance and discount houses, foreign exchange dealers, investment banking houses, investment institutions and brokerage firms.

There are several outlets for available funds in a money market but our discussion here centres around that which is most directly associated with trade, the bankers acceptance. London has long been the most important location for discounting bankers acceptances although New York has, over the past thirty years, become a strong competitor. So much good material has been written on this exceedingly interesting subject, that it seems preferable to quote, rather than to traverse, in less interesting style, ground already covered by such an author as Hartley Withers in his "International Finance" and other books. The following are extracts from remarks of Mr. Withers on the subject of the New York and London money markets: "The Supremacy of the London bill of exchange was created only to a small extent by any supremacy in London's financial

mechanism; it was based chiefly on the supremacy of England's world wide trade, and on her readiness to take goods from all nations. The consequence of this was that traders of all nations sold goods to England and so had claims on England and drew bills on England, and bought goods from her, and so owed her money and wanted to buy bills drawn on her to pay their debts with. So everywhere the bill on London was known and familiar and welcome. If the Americans are able and willing to develop such a world wide trade as England's, then the bill on New York will have a vogue all over the world just as is enjoyed by the bill on London. Then London and New York will have to fight the matter out by seeing which will provide the best and cheapest machinery for discounting the bill, that is, turning it into cash on arrival, so that the holder of it shall get the best possible price, at the present moment, for a bill due two or three months hence.

"In this matter of machinery, London has certain advantages which ought, if well used and applied, to stand her in good stead in any struggle that lies ahead of her. London's credit machinery has grown up in almost complete freedom from legislation, and it has consequently been able to grow without let or hindrance, along the lines that expediency and convenience have shown to be most practicable and useful. It has been too busy to be logical or theoretical, and consequently it is full of absurdities and anomalies, but it works with marvellous ease and elasticity. In its centre is the Bank of England, with the prestige of antiquity and of official dignity derived from acting as banker to the British Government, and with still more practical strength derived from acting as banker to all the other great banks, several of them much bigger, in certain respects than it.

"With the Bank of England thus acting as a centre to the system, there has grown up around it a circle of the great joint stock banks, which provide credit and currency for commerce and finance by lending money and taking it on deposit, or on current account. These banks work under practically no legal* restrictions of any kind with regard to the amount of cash that they hold, or to the use that they make of the money that is entrusted to their keeping. They are not allowed, if they have an office in London, to issue notes at all, but in all other respects they are left free to conduct their business along the lines that experience has shown them to be most profitable to themselves, and most convenient for their customers.

*During and after World War II Exchange Control affected the manner in which British banks could employ their resources and imposed important restrictions on their freedom of action.

"Other wheels in London's credit machinery are the London offices of colonial and foreign banks, and the bill brokers or discount houses which deal in bills of exchange and constitute the discount market. Thus we see that there is in London a highly specialized and elaborate machinery for making and dealing in these bills, which are the currency of international trade. Let us recapitulate the history of the bill and see the part contributed to its career by each wheel in the machine. We imagined a bill drawn by an Argentine seller against a cargo of wheat shipped to an English merchant. The bill will be drawn on a London accepting house, to whom the English merchant is liable for its due payment. The Argentine merchant, having drawn the bill, sells it to the Buenos Aires Branch of a South American bank, formed with English capital, and having its head office in London. It is sent to London, to the head office of the South American bank, which presents it for acceptance to the accepting house on which it is drawn, and then sells it to a bill broker at the market rate of discount. The bill broker, either at once or later, probably sells the bill to a bank, which holds it as an investment until its due date, by which time the importer, having sold the wheat at a profit, pays the money required to meet the bill to his banker and the transaction is closed. Thus by means of the bill the exporter has received immediate payment for his wheat, the importing merchant has been supplied with credit for three months in which to bring home his profit, and the bank which bought the bill has provided itself with an investment such as bankers love, because it has to be met within a short period by a house of first rate standing.

"In America the banking system grew upon lines quite different to those followed in England. England had a few great banks with branches all over the country, grouped around the Bank of England. In the United States there was a much greater number of banks, which worked more as individuals and less as part of a co-ordinate whole. The National banks were not allowed to accept bills, and it was more than likely that none of the funds deposited in most of the banks of the United States would be invested in international business. This was partly because, owing to the many and profitable outlets for the investment of money in the United States, there was no need for its financiers to go abroad in order to use the funds entrusted to them. Their chief interest in the world market was as borrowers. But the European War pushed forward the day on which America has taken its place as lender in the International money market; its banking system was, in the very nick of time, re-organized in such a

way that it was ready to face the problems of International finance. Under the Federal Reserve system, American banking is now grouped and co-ordinated and has been furnished with powers of acceptance and rediscount. If England had advantages in its slowly evolved system, shaped and tested by centuries of trial and strain, America has been able to benefit by the experience and mistakes of older nations, and to fashion a banking system after careful study of all that was best and worst abroad. The new system came into being at a time of stress, and so far has faced with admirable composure and success a series of problems for which no experience could have prepared it."

Up to the Second World War raw materials and the world's goods found a ready market in England. While Commodity Exchanges provided the most comprehensive world markets in rubber, wool, cotton and other products, by means of the acceptance market London provided the necessary medium of finance. The London Banks and Acceptance Houses granted credits to producers of raw materials in many countries, helping them to finance products during shipping and also establishing what were termed "anticipatory credits" designed to assist the producer to finance over the period in which crops were harvested, packed, moved to ports or delivered to warehouses for storage.

The outbreak of war in 1939 seriously affected the international movement of goods, and with the introduction of exchange regulations and restrictions and the closing of the commodity markets, London's acceptance credit business was brought almost to an end. The set-back proved, however, to be only a temporary one. As international trade revived after the war and the commodity markets re-opened merchants and traders throughout the world turned again to London for their finance and the London banker's credit and the bill on London re-established themselves as the predominant instruments for financing world trade. Within a few years after the ending of the war half the world's trade was being financed in sterling and London had become again the financial centre of the world. In spite of the greater financial resources behind the New York market, London with its banking machinery and experience built up over the centuries and its willingness to take risks, was able to recapture its supremacy in this type of business. The pre-eminent importance of the bill on London can be gauged by the fact that some importers abroad continue to finance through London even at times when the total cost of dollar financing is less.

United States Practice

The real development in the use of bankers acceptances in the United States has taken place only since the establishment of the Federal Reserve System in 1913. The passing of the Federal Reserve Act made possible the creation of a market in acceptances, but prior to that time drafts could not legally be drawn on United States National banks. The financial authorities in the United States were most anxious to promote this useful form of financing, not only to assist the domestic business of the United States, but also to aid in the development of its foreign trade and to render it unnecessary for importers and exporters to turn to London, as they had prior to World War I, when desirous of financing in this way. There was the further object that the wider use of the dollar in foreign exchange transactions and the facilities which were given by the Federal Reserve Act in connection with dollar exchange, would encourage the use of this currency all over the world and give it a position in international trade that would vie with that enjoyed by the pound sterling.

Acceptance dealers became active almost as soon as the market was established. The number of accepting banks increased rapidly from the outset and by 1921 several hundred were participants. This number has declined consistently since that time and although there are still in excess of one hundred accepting institutions, the greater part of the accepting is done by about forty banks, located in the larger financial centres, with the principal market being New York. The dollar amount of acceptances rose steadily, reaching a peak of $1,732,000,000 in December 1929, fell sharply each year until 1933 and then remained relatively steady until December 1945, when total outstandings were $104,000,000. The most recent figures available show the following acceptances outstanding in the United States as at May 31, 1955, which reflect a substantial increase over the figures ten years ago:

Total Amount	$685,846,000
Amount covering imports	206,901,000
Amount covering exports	188,114,000
Domestic shipments	11,534,000
Domestic warehouse	138,767,000
Dollar Exchange	52,865,000
Goods stored in or shipped between foreign countries	87,665,000

By way of indicating full support for this type of financing, the Federal Reserve Banks undertook to purchase all prime, bank endorsed acceptances offered to them at their own buying rates. Prior to the 1930's these rates were low relative to other open market rates, so that the Reserve Banks usually owned between 25% and 50% of all outstanding acceptances. Since 1934, however, the acceptance market has been able to stand by itself as commercial banks have found acceptances more attractive as an investment medium. The Federal Reserve Banks no longer establish buying rates but purchase at the going market rate. Today the market is highly concentrated. The accepting banks retain roughly one quarter of their own acceptances instead of selling them in the open market. The rest are sold through some one-half dozen bill brokers or dealers. The chief buyers have been the city banks, both for their own accounts and for the accounts of foreign customers and correspondents and the Federal Reserve Banks for the accounts of foreign correspondents. Other purchasers at times may include business corporations and savings banks, but the volume has not been great enough to provide available acceptances for sustained or substantial holdings by such entities. The Federal Reserve Banks have latterly been buying only negligible quantities for their own accounts.

Whereas English practice in connection with the financing under discussion had grown up over a long period of years, and English banks had great experience in international business, United States banks were newcomers in the field. It was felt therefore that the English practice of working without regulation could not be followed and that rules must be formulated for the guidance of banks concerned. The strictness of these rules has been modified since they were first formulated, and their general sense, as it relates to the creation of bankers acceptances, can now be summarized as follows in their relation to foreign trade:

(1) Member banks may accept bills arising out of foreign and domestic transactions up to an aggregate amount not exceeding 50% of paid-up unimpaired capital and surplus; on approval of the Federal Reserve Board, this limit may be raised to 100% but the aggregate amount of acceptances arising from domestic transactions shall not exceed 50%.

(2) In addition to the above, any member bank may accept drafts or bills of exchange drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the

purpose of furnishing dollar exchange for an amount not exceeding 50% of its paid-up, unimpaired capital and surplus.

With regard to (1) above, drafts or bills which grow out of transactions involving importation or exportation of goods are allowed to be of a tenor not exceeding six months' sight, exclusive of days of grace. No member bank, however, may accept for any one company or individual to an amount equal to more than 10% of its paid-up, unimpaired capital stock and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance.

The regulations surrounding the creation of bankers acceptances were devised with the idea that this class of paper should have liquidity and safety as its outstanding characteristics. With the exception of bills drawn for the purpose of furnishing dollar exchange, each acceptance must be related to a specific transaction and although the maximum tenor is specified, the actual tenor of the bill should not, in any event, be for a period longer than that which practical experience and trade usage show is necessary for the financing of the particular transaction. The limitation of the amount which may be accepted by a bank for any one entity and the restriction of the aggregate amount which any one bank may accept, are inspired by considerations of safety. The regulations also specify the conditions under which the Federal Reserve banks may rediscount acceptances for member banks or purchase them in the open market for their own account.

So far as the rediscount feature is concerned, the action of the reserve bank is governed by Regulations A, B and C of the Federal Reserve Board reading in part as follows:

Definition

"A Bankers acceptance within the meaning of this Regulation is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other currency, accepted by a bank or trust company or a firm, person, company, or corporation engaged generally in the business of granting bankers acceptance credits."

Eligibility

Regulation A states that — "Any Federal Reserve Bank may discount for any of its member banks a banker's acceptance which bears the endorsement of a member bank and (1) which grows out of transactions

involving the importation or exportation of goods, the shipment of goods within the United States, or the storage of readily marketable staples —— or (2) which has been drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange as provided in section 2 of Regulation C; provided, that any such acceptance shall have a maturity at the time of discount of not more than 90 days sight, exclusive of days of grace, except that an acceptance drawn for agricultural purposes and secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples may be discounted with a maturity at the time of discount of not more than six months' sight, exclusive of days of grace; and provided further, that acceptances for any one customer in excess of ten percent of the capital and surplus of the accepting bank must remain actually secured throughout the life of the acceptance."

So far as the open market purchases of the reserve bank are concerned, greater latitude is allowed — they may purchase any acceptance which is eligible for rediscount, with or without the endorsement of a member bank. Moreover, they may purchase a bankers acceptance with a maturity up to six months if it grows out of a transaction involving the importation or exportation of goods and, further, an acceptance growing out of a transaction involving the storage within the United States of goods actually under contract of sale and not yet delivered or paid for may be purchased, provided the acceptor is secured by the pledge of such goods, and, provided that, in each of the foregoing cases, the acceptance conforms in other respects to the applicable requirements of Regulation A outlined above.

It was mentioned previously that Regulation C authorized member banks to accept bills drawn for the purpose of furnishing dollar Exchange. It stipulates that the tenor of these bills be limited to three months' sight, exclusive of days of grace. The privilege is restricted to countries (with regular mail connections) where the usages of trade require such a type of acceptance facility. A list of the countries to which this privilege is extended may be found in the Board Digest of Rules (1937), Page No. 151.

An interesting illustration of the necessity for and utility of this class of acceptance is given by Mr. W. Ward in his book "The Creation of Acceptance Credits" published by the American Acceptance Council:—

"To understand the practical purpose served by this class of

acceptance, let us consider a typical transaction. A steamer from the United States arrives at a Central American port with cargo and mail, including documentary sight dollar drafts drawn by the American seller on the Central American buyers. In the course of a day or two these documentary drafts are presented, simultaneously bringing all the drawees into the export market as buyers of dollars. The total of their requirements is likely to exceed the supply of dollar exchange which local bankers have accumulated from local exporters of products to the United States, or otherwise, and which are either already available as dollar deposits in accounts with bankers in the United States, or else in the course of transit for collection and credit to these accounts. If these drawees must compete for the inadequate supply of dollars on hand, it is obvious that the result will be a sharp rise in the cost of dollar exchange without any augmentation of the supply, to the detriment of all, and naturally also to the detriment of further trade with the United States. If the local banks have, however, arranged draft credit facilities with the United States correspondents, the situation is simplified. They can sell their dollar cheques on the United States to the drawees, thus furnishing them with funds with which to take up the trade drafts, and they can simultaneously draw for an equivalent sum covering drafts at 90 days sight on their American bank correspondents. The cheques and time drafts will arrive here in the same mail. The time drafts will be immediately accepted and discounted and the proceeds credited to the accounts of the Central American banks and thus utilized to cover the cheques. During the 90 days that will elapse before the time drafts mature, the Central American banks can, as opportunity affords and without forcing the market, accumulate and remit the dollar exchange with which to pay the drafts when presented for payment."

In the United States any trader who is able to participate in dollar acceptance financing is probably able to obtain a direct loan from his bank. He would normally then be in a position to take advantage of whichever of the two forms offered the most attractive interest rate. In addition he would possibly take into consideration the fact that many banks require no deposit balance to be lodged against an outstanding acceptance, whereas, as pointed out in a recent Federal Reserve Bulletin (May 1955), in case of a direct loan banks in the United States customarily expect borrowers to maintain a compensating balance, often as much as 20% of the amount of the loan outstanding. On the other hand, the borrower is aware that when funds are received sooner than anticipated, prepayment of a direct loan with corresponding interest rebate is usual prac-

tice, but such is not the case when an American bank is placed in funds prior to the due date of an acceptance to effect payment when the item is presented. In such instances, rebate practices are not standard and a rebate may not be possible. The rate to the obligant borrowing by way of acceptance financing is flexible. It is influenced by the prime rate and is normally found at or near the same level making it an attractive medium for securing funds. It is actually composed of the rate charged by the accepting bank for lending its name in addition to which there is the current negotiation charge levied by the discount house.

We have referred to the fact that in England acceptances are limited only by the prudence of the acceptor and the amount of his paper which the market will absorb; but in practice this latter consideration provides an effective brake. In the highly organized London market, the appearance of what the bill brokers or banks consider an excessive amount of paper bearing the name of one accepting house, leads to unwillingness to purchase the acceptances, and deals a blow to the acceptor's credit which it may take years to live down.

While the banks in Canada are not prevented by law from accepting time drafts drawn on them from abroad, the purpose of this method of financing is obscured when no open market exists for the disposal of the acceptances. The whole advantage of the system lies in the fact that a bank is able to lend its credit without lending its money. The money is supplied from funds attracted to a big market in the search for liquid short term investments. By limiting maturities to three to six months, by endeavouring through regulation and practice to confine the use of bankers acceptances to transactions of a self-liquidating nature, the Federal Reserve regulation has tried to make this type of paper highly liquid and consequently a desirable investment for cash reserves.

By way of a short summary, while bankers acceptances have been used in financing trade for centuries in Europe, principally in London, their appearance in the United States commenced only in 1913 where they were created in connection with transactions involving the import and export of goods, the shipment of goods within the United States, the storage of readily marketable staple commodities either in the United States or in foreign countries, and the furnishing of dollar exchange. The international uses, particularly the financing of imports and exports, have traditionally accounted for the bulk of bankers acceptances drawn. Expansion of the foreign use of dollar acceptances is restricted to some extent by the inconvertibility of some foreign currencies, particularly as

it applies to credit extension by American banks in connection with financing of trade between foreign countries. The exchange controls of such countries whose trade is settled in inconvertible currencies, do not at the present time permit settlement of trade obligations in a method involving an ultimate payment of dollars. The bankers acceptance method of financing is, however, of great assistance in stimulating foreign trade and can be highly useful in building up the economy of friendly nations.

Canada — Money Market

In June, 1954, the first step was taken towards the establishment of a money market in Canada. The banks in Montreal and Toronto now make available to those jobbers in Government of Canada securities who have been granted rediscount facilities with the Bank of Canada a category of call loans known as "day-to-day loans" which are secured by Government of Canada Treasury Bills or Government of Canada Bonds maturing within three years. These loans are granted on a strictly day-to-day basis at the convenience of the banks when they have surplus cash available to employ in this manner. The rates on these loans fluctuate and usually follow and remain slightly under the yield at any time on 90-day Government of Canada Treasury Bills. These new banking facilities have resulted in a considerably higher volume of trading in short term Government of Canada securities but the money market as presently established is probably not of direct use in the financing of foreign trade.

FOREIGN EXCHANGE

Foreign Exchange

This section first outlines some of the fundamental forces at work in the foreign exchange market, and then describes the organization and operation of the foreign exchange market where the foreign trader buys and sells his exchange. If the reader has the time for further study he will find a list of a few of the more readable books in the bibliography on page 125.

Foreign exchange is generally considered to be the mechanism by which the settlement of indebtedness arising from the operations of international trade, services, and finance is effected. This requires the conversion of the currency of one country into its equivalent in the currency of another country. The actual transfer of foreign funds into domestic or other funds, usually through banks at the principal money centres, constitutes the foreign exchange market.

The term foreign exchange, however, is also applied to the actual foreign bank notes, or other media of settlement, used in the foreign transaction. The foreign exchange rate is the value or quotation for one foreign currency expressed in terms of another currency.

The Gold Standard

Under the Gold Standard the theory of foreign exchange was relatively simple. Most of the great commercial countries of the world based the value of their currencies on gold (some far Eastern countries used silver). The relative value of each currency depended on the gold backing or gold content of the unit of currency. Gold was the international money, a standard of value, and freely available as required in the settlement of international indebtedness. This implied that the exchange rate should remain fixed in terms of gold, and the domestic economy would adjust itself to the outward or inward flow of gold. If prices were inflated in one country imports would tend to exceed exports, causing an outflow

of gold, reducing the currency reserves which in turn would bring about a restriction of credit and a deflation of prices. Thus, adherence to the gold standard involved the maintenance of a country's price level at much the same level as that of other gold standard countries. Without the gold standard a country would be forced to adjust its price relationship with other countries by allowing its exchange rate to fall to a discount (or rise to a premium), or by adopting various exchange restrictions which would have much the same effect. Devaluation of the rate might be accepted to establish a new relationship with the currencies of gold standard countries following a period of rising prices.

From the point of view of a trader the maintenance of the gold standard meant that the exchange rate of the currencies involved could not fluctuate beyond the cost of shipping gold, the so-called gold points. Though gold was available for transfer the actual medium of exchange was made up of mail or cable transfers or bills of exchange drawn by banks or firms in one country on banks and firms in another. For example, if a Canadian trader had a large payment to make abroad he would buy foreign exchange so long as it cost him less per foreign currency unit than the equivalent amount of gold, plus the various expenses of shipping gold abroad.

If a United States dollar in gold costs $1.00 Canadian and the loss of interest for the time the gold was in transit plus freight, insurance, cartage or armored car service, cooperage and mint charges cost about 3/16 of 1% per dollar, the gold could be delivered in New York at a cost of $1.001875 Canadian, or brought from New York at .998125. Therefore, under the Gold Standard, the maximum fluctuation in the value of the U. S. dollar in Montreal would be 3/16 of 1% either side of par, or else the foreign traders would send or receive gold rather than bills of exchange.

Though the Gold Standard operated effectively in the nineteenth century it began to disintegrate after 1914. During World War I it was suspended, and then after a short period of modified operation in the 1920's and 1930's it was definitely abandoned. Without the Gold Standard to control exchange rates, however, it was soon evident that free exchange rates had their own disadvantages. Discriminatory exchange practices and competitive depreciation of currencies presented handicaps to international trade, and the wide fluctuations in exchange rates brought possibilities of loss for the foreign trader.

Various types of equalization funds were set up to endeavour to

maintain some stability in exchange rates. Some countries aligned their currencies with the U. S. dollar or the pound sterling, thereby creating the beginnings of the so-called Dollar Area and Sterling Bloc. Others set up payment agreements, clearing accounts, blocked balances, multiple rates and other types of controls which reached their peak in the complete exchange control systems of World War II. After the war the International Monetary Fund was set up to secure the cooperation of countries during the transitional period. It was hoped that wartime control systems would be completely abandoned, and countries would work together for the development of an orderly system of exchange rates and the revival and development of multilateral trade. Up to the present progress has been slow, and the various objectives have been only partially realized.

Canadian Experience

In 1857 Canada adopted the Canadian dollar as its currency unit and established the gold content at 23.22 grains of pure gold, the same as the United States dollar. For eleven years following Confederation, until 1878, the Canadian dollar sold at a premium in terms of the U.S. dollar because of the suspension of gold payments by the United States during and after the Civil War. From 1879 until 1914 its value in terms of the U.S. dollar remained within 3/16 of 1% either side of par (the lower and upper gold points).

Canada suspended gold payments on the outbreak of World War I and only resumed gold payments again for a short time from 1926 to 1929. During the rest of the period until World War II the exchange rate fluctuated freely according to the supply and demand except for a couple of years at the end of World War I when it was pegged to the United States dollar by means of security sales and loans in the United States. The gold standard was formally abandoned on April 10, 1933.

In most years the Canadian dollar rate fluctuated between par and 3% discount in New York but in two periods of international payments crises the rate fell as low as 16% discount in the early 1920's and 20% discount in the early 1930's. In 1935 the government set up the Exchange Fund Account to aid in the control and protection of the external value of the Canadian dollar, but the Fund did not function until September 15, 1939 when the newly formed Foreign Exchange Control Board was appointed to administer it. Since 1952 the Bank of Canada has operated the Fund.

During World War II all free foreign exchange in the possession, ownership or control of residents was controlled by the Foreign Exchange Control Board. Fixed rates were set for all transactions in United States dollars and the pound sterling. Exchange dealings in other currencies were made at rates based on their exchange value in terms of pound sterling or United States dollars. The size and timing of important changes in the official rates required during this period demonstrates the difficulty in arriving at fixed exchange rates equitable in all circumstances over a lengthy period.

Though foreign exchange control continued until December 14, 1951 the official fixed foreign exchange rates were abolished on September 30, 1950 after which date all rates were allowed to fluctuate freely depending on supply and demand. At this time no parity rate for the Canadian dollar was declared to the International Monetary Fund by the Minister of Finance and this situation has continued up to the present.

During the period of controlled rates the official Canadian quotations for immediate or spot delivery were as follows:

	United States Dollars		Sterling	
Effective Date	Buying	Selling	Buying	Selling
September 15, 1939	$1.10	$1.11	$4.43	$4.47
October 15, 1945	$1.10	$1.10½	$4.43	$4.45
July 5, 1946	$1.00	$1.00½	$4.02	$4.04
*September 19, 1949	$1.10	$1.10½	$3.07¼	$3.08¾
September 30, 1950	All official fixed foreign exchange rates cancelled.			

Foreign exchange rates now fluctuate freely, though the resources of the Foreign Exchange Fund Account may be employed during periods of excess demand or supply to ensure an orderly foreign exchange market. In the Budget Speech on April 5, 1955 the Minister of Finance reaffirmed this policy stating "There has been no change in the policy of the government to allow the rate of exchange to be determined by the sum total of the forces operating in the exchange market, including, of course, the influence of fiscal and monetary conditions. The resources of the Exchange Fund are not used to reverse persistent trends but only to contribute to orderly conditions by limiting excessive short-run movements in either direction which might otherwise occur."

*(The changes in the official rates on this date followed a 30.5% devaluation of sterling on the same date).

The Canadian Balance of Payments

The statement below tabulates the various international transactions of the years 1946 and 1956 that gave rise to foreign exchange operations. It outlines in Canadian dollar totals the reasons why money passed between residents of Canada and residents of all other countries. Though it lists the total trade, securities and other transactions, it does not follow that foreign exchange transactions actually took place in these amounts. During the same period some companies may have bought their exchange in advance and held it, or delayed making payment as long as possible (leads and lags), while others may have made settlement through inter-company accounts.

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS
(Estimates of the Dominion Bureau of Statistics)
(Millions of Dollars)

CURRENT RECEIPTS AND PAYMENTS	1946 Exports (Credits)	1946 Imports (Debits)	1956 Exports (Credits	1956 Imports (Debits)
Merchandise trade	2,393	1,822	4,834	5,568
Gold production for export	96		150	
Travel expenditures	221	135	335	497
Interest & dividends	70	312	141	530
Freight & shipping	311	219	439	489
Inheritances & immigrants' funds	65	35	98	107
Other current receipts	209	479	411	615
TOTALS	3,365	3,002	6,408	7,806
Current account difference	363			1,398
CAPITAL ACCOUNT				
Direct investment in — Canada	40		525	
Direct investment — abroad		14		100
Canadian securities — trade in outstanding issues	194		208	
Canadian securities — new issues	218		681	
Canadian securities — retirements		539		140
Foreign securities — trade in outstanding issues	25		28	
Foreign securities — new issues		4		14
Foreign securities — retirements	13			
Loans by Gov. of Canada — drawings		750		
Loans by Gov. of Canada — repayment of loans	94		69	
Change in Canadian dollar holdings of foreigners	70			24
Change in official holdings of gold and for. exch. (decrease)	267			(inc.) 33
Other capital movements and adjustments	23		198	
	944	1,307	1,709	311
Balance item		363	1,398	

In the statement credit items represent all transactions which created a demand for Canadian dollars or a supply of foreign exchange (e.g. the export of merchandise and securities, or money spent in Canada by foreign tourists). The debit items represent all transactions which created a demand for foreign exchange (e.g. imports of goods or the retirement of U. S.-held Canadian dollar securities). Over a period of time these debit and credit items must tend to be equal and the balancing is facilitated by changes in the exchange rates. For example, if there were a large increase of imports over exports and the increase was not offset by other credit factors, the price of foreign currencies would increase relative to the price of the domestic currency. This would tend to discourage further imports by making them more expensive and it would encourage exports by making them cheaper in the currencies of other countries. In addition non-residents could advantageously increase their holdings of Canadian securities and currency balances, whereas Canadian residents would not find foreign securities so attractive. Other non-residents who have payments falling due in Canada might take advantage of the exchange situation to hasten their transfer of funds. Overall, the forces set up tend to restore the rate of exchange.

In our merchandise trade the wheat, paper, metals and other products we sell abroad create United States dollars, pounds sterling, etc., needed to pay for our imports of machinery, equipment, fuels and other products. The export of gold creates a supply of exchange whereas the payment of dividends and interest abroad creates a demand for exchange. Immigrants' funds and tourist expenditures formerly provided a net supply of exchange but lately this has been more than offset by immigrant remittances and the cost of Canadian travel abroad.

For the reason that Canada is in general a borrowing country and not a lending country a large supply of exchange has been received from exports of securities and from direct investments in Canadian plants and properties by foreign interests. This flow of international capital into Canada has had profound effects on the economy and exchange rates. The substantial inflow of capital in recent years has made possible the rapid development of certain industries, particularly oil, gas and metals as well as the introduction of many new industries thereby increasing Canada's ability to export. In the past the rate of flow of capital has been very irregular. In two periods of large current deficits, in 1920 and around 1930, the inflow of capital was at a low ebb. Presently the heavy inflow from loans and investment money continues despite the high price of the

Canadian dollar, thereby making possible the large net excess of merchandise imports of recent years.

The Instruments of Payment

One of the functions of the bank exchange trader lies in buying commercial bills and balances and selling his own drafts, etc., against them. For example, when a Canadian exporter sells goods to a London merchant for payment in pounds, he establishes a claim on London for sterling. If he receives payment by bill or sterling cheque the bank will buy it from him and send the instrument to London for collection and deposit to their account. The bank then has a balance in pounds in London against which it can sell sterling drafts, mail or cable transfers to Canadian importers, etc. There are a multitude of variations to this process whereby the banks buy and sell United States dollars, pounds sterling, French francs, etc., drawn on foreign currency accounts carried at foreign branches or in foreign banks in the principal trading centres of the world.

The Canadian banker buys his supply of exchange for his foreign currency bank accounts from Canadian exporters, and other clients and banks here and abroad, in the form of actual foreign bank notes, cable or telegraphic transfers in foreign currencies, cheques, clean and documentary bills, drafts and mail transfers, called and matured securities, coupons, etc., which are expressed payable in foreign currencies.

The banker sells foreign exchange to importers and other clients and banks by means of instruments drawn on or paid out of his foreign currency accounts, also by cable or telegraphic transfers for immediate payment of the foreign exchange to the payee named in the instructions. Occasionally, foreign exchange is sold by means of drafts payable a certain number of days after sight. The latter are known as bankers' time drafts and the selling rate for the foreign currency concerned is adjusted by the rate of credit interest paid, if any, for the amount and period concerned.

The Mechanism of the Foreign Exchange Market

Foreign exchange transactions are effected by the buying and selling of mail and cable transfers and bills of exchange, etc., the market organization being peculiar to the business. Common and Preferred Stocks are traded only on the stock exchanges where they are listed. The interested buyers and sellers, represented by their brokers, meet and establish prices.

The foreign exchange market does not function in that way. In the principal financial centres throughout the world the foreign exchange traders of interested banks are connected by telephone to local foreign exchange brokers. These foreign exchange brokers act as agents to bring buyers and sellers together. When an exchange trader calls the foreign exchange broker to offer or bid on a certain currency, the foreign exchange broker immediately advises the other exchange traders in the market of the bid or offer giving rate of exchange, delivery date, and amount. As deals are arranged, the foreign exchange broker advises both parties who then settle the transaction between themselves in accordance with the custom of the market. The foreign exchange broker also advises the other exchange traders of the deal without naming the banks involved. In addition to transactions through foreign exchange brokers many bank traders deal directly with banks in other financial centres throughout the world by means of long distance telephone, telex or cables. These latter transactions assume substantial proportions.

As the largest part of Canada's foreign trade is with the United States and the United Kingdom the principal currencies traded in Canada are the United States dollar and the pound Sterling. The principal Canadian markets for the conversion of Canadian dollars into other currencies are located in Montreal and Toronto. Since most Canadian banks operate simultaneously in both Montreal and Toronto these two centres can be considered as one market. The foreign exchange traders of each Canadian bank keep in constant touch with the local markets in Montreal and Toronto by direct phones to the foreign exchange brokers, and in addition, trade by teletype, direct telephone, long distance telephone, or fast cable with banks in other financial centres. Thus, the trader of a large Canadian bank is in touch constantly with banks in Montreal, Toronto, New York, London, etc., every business day.

In view of the constant checking of rates of exchange in the foreign exchange markets here and abroad the rate for the Canadian dollar in the large financial centres would normally be the same. If not, foreign exchange traders are quick to take advantage of the situation by buying in one market and selling in another at a profit. Such operations are known as "arbitrage transactions" and result in keeping the foreign exchange rates, between freely-traded currencies, in line in the principal foreign exchange markets.

This highly developed foreign exchange market is readily available to every Canadian branch bank. Each branch receives daily by telegram or

mail the principal current exchange quotations. Generally, all large transactions must be referred by teletype, telegram or telephone to the foreign exchange trading branch for the latest rate available.

Foreign Exchange Transactions

When a merchant requires foreign exchange such as United States dollars, he normally purchases the dollars directly from his bank. The bank sells the dollars to him in whatever form required from its balances on hand, which in turn were purchased from clients, in the form of cheques, mail or cable transfers, sight, demand and term bills, coupons, notes, etc., or from other banks in the foreign exchange market, usually in the form of telegraphic transfers or demand exchange. The rate of exchange the merchant must pay for U. S. dollars is based on the rate the bank must pay the seller. When this demand for U. S. dollars more or less equals the supply, the rate remains fairly steady but when the demand for U. S. dollars exceeds the supply available, a higher rate (or price) must be paid in order to induce more sellers of U. S. dollars into the exchange market.

Foreign exchange transactions may be closed on the basis of spot, forward or swap rates. Spot rates concern transactions where the actual settlement with the bank is to be made immediately or within two or three days, depending on the usage of the market, etc. Forward or future rates refer to transactions where the rate of exchange is fixed for settlement at an agreed rate for delivery on some specific date or optional period in the future, usually beyond two or three days. Swap rates are the premium or discount on the simultaneous purchase and sale of the same amount of foreign exchange where one side is for spot delivery and the other side forward or where both purchase and sale are forward dates. Frequently swap transactions facilitate lendings or borrowings of foreign exchange against domestic currency or some other kind of foreign exchange. Transactions for spot delivery are the most common. The importer buys his foreign exchange on a spot or immediate delivery basis when he requires delivery of same at time of purchase. The exporter sells his foreign exchange for spot or immediate delivery when the draft, cheque or other type of claim to foreign exchange is available to sell to the bank or he is in a position to draw and negotiate a sight or usance bill for the amount involved. There may be slight variations in the spot rates, however, depending on the form in which the foreign exchange is delivered, such as

cable, demand, sight or usance bill, or cheque, etc. In the case of sterling the cable rate expresses the amount in dollars that will be received for a pound in London payable on cable instructions. The cheque or demand sterling rate is the amount in dollars per pound that will be received for a cheque or demand draft expressed in sterling. The demand sterling rate is frequently less favourable than the cable rate because of delayed payment due to mail transit time. In the case of a bill or draft, allowance must also be made for the time it takes to effect presentation and collection and the days of grace, if any, stamp tax, etc. If the sterling bill is drawn on some place outside of Britain, allowance must also be made for the additional transit time and the collection charge of the correspondent bank. On discounted bills (see page 17) the "all-in" rate of exchange received is based on the spot market adjusted by the rate of interest proportionate to the estimated time the bill is outstanding pending payment, stamp taxes, if any, and the correspondent bank's collection charges. In the case of an "all-in" rate the customer knows immediately the amount realized on the bill of exchange.

There was little trading in exchange for forward delivery before World War I because of the stability then prevailing in the principal rates of exchange. The forward market developed after the principal foreign currencies went off the gold standard in 1914. The rate of exchange on forward transactions is the spot rate of exchange, adjusted by the discount or premium rate prevailing on forwards for the term of foreign currency concerned, from the date of fixing the rate of exchange to delivery of the relative exchange. Theoretically, the discount or premium on forwards is mainly influenced by the relative rates of interest of the two countries concerned. On a day-to-day basis the forward rates are influenced by the amount of short-term money available, the demand and supply of forwards for particular dates or periods and speculation in anticipation of strength or weakness in the rate, devaluation or changes in foreign exchange control regulations, etc.

Ordinarily, there is forward trading in currencies free from foreign exchange control regulations or where control regulations permit free dealings in forwards. Generally, the forward rates are quoted for any date or period up to 90 days. In some currencies trading in futures is active up to 180 days with occasional deals for longer periods. While transactions in forwards between banks are generally for fixed dates only, contracts with the public are usually made on the basis of delivery at buyer's or seller's option 15 to 30 days before the maturity date or say

the first or last half of a particular month or during a specific month. When forwards are quoted at a premium, banks buying from the public pay the premium only for the fixed term portion of the contract during which period delivery cannot be made. Similarly, when forwards are quoted at a discount, banks selling to the public for future delivery allow the customer the discount for the fixed period of future delivery during which period delivery cannot be taken. Exporters and importers dealing in forwards should estimate the option period carefully in order to benefit as much as possible from the premium or discount.

Merchants buying or selling goods on a foreign currency basis for forward delivery, wishing to fix the rate of exchange, can do so by closing a forward exchange deal with their bank on the basis of the exchange rates prevailing at the time they entered into their contracts. The practice of fixing rates of exchange for forward delivery, and thereby eliminating the exchange risk, is particularly important where commitments have been entered into for both the purchase and the sale of the goods based on current exchange rates.

For example, an exporter has drawn a sterling time bill for 90 days after sight in cover of an export of goods to London, England. He could wait until the bill had been collected and then sell the pounds to the bank but during the period the bill is outstanding he is exposed to the risk of changes in the exchange rate. He can avoid this risk by negotiating the bill at the current rate of exchange, receiving the proceeds immediately. Alternatively, if he wishes to avoid the interest charges, he can arrange to sell to the bank the amount involved for forward delivery at seller's option, say 90 to 120 days ahead, and have the bill sent to London for collection. On receipt of advice of payment of the collection the amount of pounds is available for delivery against the forward contract and conversion into Canadian dollars at the rate stipulated in the forward contract.

Frequently, however, the exporter has only a contract to ship goods sometime in the future, say in three months, against payment on delivery. To avoid the risk of a change in the rate he can arrange to sell the foreign exchange to the bank at a definite rate with delivery to be made at the seller's option, say three to four months ahead. If the exporter does not receive the exchange at the time expected, he may apply to his bank for an extension of his contract for the period of time required. These extensions can be arranged until the delayed payment is received subject to any necessary adjustment in the rate of exchange stipulated in the

forward contract. The discount or premium rate applied on these extensions is based on the forward rate as distinct from the spot rate, for the period concerned effective in the market at the time the extension is requested. If the original forward contract is extended the rate is adjusted by the amount of the prevailing discount or premium on the extension; otherwise, the old contract is taken up and a new one entered into for the additional period. Generally, the spot rate prevailing at the time of arranging the extension has little if any bearing on the extension rate.

If the exporter finds that he cannot collect the exchange from his client and he has not sufficient receipts of foreign exchange from other sources to make delivery under his forward contract, he can arrange with the bank to cancel the contract. He does this by purchasing spot or forward foreign exchange as required for delivery against his forward contracts. The profit or loss would depend upon the cancellation rate as compared to the contract rate.

Another very useful type of foreign exchange operation is the "swap". The foreign exchange is bought on a spot basis and simultaneously sold on a forward basis, or is sold on a spot basis and simultaneously bought on a forward basis. The result of such a deal is that persons with domestic or foreign currency balances at their disposal may exchange them temporarily for other currencies for a definite period of time usually at a small cost or profit. The rate applied is the premium or discount between the spot and forward rates for the period involved. Swaps can also be arranged for a forward date against another forward date. Swap deals sometimes are undertaken to adjust domestic cash positions against foreign currency cash positions or to bring into balance over-bought and over-sold forward dates; swaps are also undertaken by persons or firms desirous of making short-term foreign currency investments or loans, etc., without exchange risk. The attractiveness of such investments is dependent upon the rate of interest on the foreign currency investment as compared to local short-term interest rates, adjusted by the profit or loss on the swap transaction. Such transactions are useful in many other situations where customers have a temporary surplus of one currency and can use another currency to advantage.

Foreign Exchange Controls

A number of countries still operate under foreign exchange regulations with wide variations in the degree of control depending on the

balance of payments problems in the respective countries. Generally speaking, these regulations, which deal with import and export licenses, exchange permits, etc., are subject to constant amendments, the introduction of new regulations and changes in administrative policies. Quite frequently knowledge of the latter is of prime importance and usually such first-hand information can only be obtained on the spot through direct and constant contact with the exchange control authorities. In the circumstances importers and exporters, etc., dealing with such countries should endeavour to keep informed through their bankers of new foreign exchange control developments.

UNIFORM CUSTOMS
AND
AMERICAN FOREIGN TRADE
DEFINITIONS

Uniform Customs and Practice for Commercial Documentary Credits

The International Chamber of Commerce in cooperation with the banking committees of a number of countries have drawn up a set of uniform regulations to govern the handling of commercial documentary credits. As at July 15th, 1956, the banks in the following countries had agreed, either officially or tacitly, to abide by this convention:

Argentina
Austria
Belgium
Belgian Congo
Bolivia
Brazil
Bulgaria
Cambodia
Colombia
Costa Rica
Cuba
Czechoslovakia
Denmark
Finland
France — French Union
Germany
Greece
Guatemala
Haiti
Honduras
Hungary
Indonesia
Iran
Israel
Italy
Japan
Korea
Luxemburg
Mexico
Morocco
Netherlands
Dutch West Indies
Norway
Pakistan
Panama
Peru
Philippines
Poland
Portugal
Rumania
Saar
Salvador
Spain
Sweden
Switzerland
Tangiers
Turkey
United States of America
Uruguay
U.S.S.R.
Vietnam
Yugoslavia

It follows then that credits established with banks in these countries would in the normal course be interpreted in accordance with Uniform Customs and Practice. The provisions would not supersede local customs

and practice in countries which have not given their adherence to the convention but if a letter of credit bears a clause indicating it is subject to Uniform Customs and Practice the interpretations permitted under the convention would be acceptable to both the establishing bank and its customer.

The provisions of the convention are as follows:

General Provisions

The provisions, definitions, interpretations, etc., contained in the following Articles are to be understood as uniform directions applying to all commercial documentary credits including authorities to pay, accept, negotiate or purchase, unless otherwise expressly agreed.

It is essential that instructions embodied in commercial documentary credits be complete and precise in every way and any attempt to include technical terms or cumbersome details should be discouraged in order to guard against the possibility of confusion and misunderstanding.

The beneficiary of a credit can in no case avail himself of the legal relations existing between Banks, or between the applicant for the credit and his Bank.

A. — Form of Credits

Article 1. — Commercial documentary credits are essentially distinct transactions from sales contracts, on which they may be based, with which Banks are not concerned.

Article 2. — Commercial documentary credits may be either:

(a) revocable or

(b) irrevocable.

Article 3. — All credits, unless clearly stipulated as irrevocable, are considered revocable even though an expiry date is specified.

Article 4. — Revocable credits are not legally binding undertakings between Banks and beneficiaries. Such credits may be modified or cancelled at any moment without notice to the beneficiary. When a credit of this nature has been transmitted to a branch or to another Bank, its modification or cancellation can take effect only upon receipt of notice thereof by such branch or other Bank, prior to payment or negotiation, or the acceptance of drawings thereunder by such branch or other Bank.

Article 5. — Irrevocable credits are definite undertakings by an

issuing Bank and constitute the engagement of that Bank to the beneficiary or as the case may be, to the beneficiary and bona fide holders of drafts drawn thereunder that the provisions for payment, acceptance or negotiation contained in the credit, will be duly fulfilled provided that the documents or as the case may be, the documents and the drafts drawn thereunder comply with the terms and conditions of the credit.

When the issuing Bank instructs another Bank to confirm its irrevocable credit and when the latter does so, the confirmation implies a definite undertaking of the confirming Bank as from the date on which it gives confirmation.

In case of credits available by negotiation of drafts, the confirmation implies only the undertaking of the confirming Bank to negotiate drafts without recourse to drawer.

Such undertakings can neither be modified nor cancelled without the agreement of all concerned.

When a correspondent is instructed by cable or telegram to notify a letter of credit, the issuing Bank must send the original of the said letter of credit to the said correspondent if it is intended to put the document itself into circulation. If any other procedure were followed, the issuing Bank would be responsible for all consequences which may result therefrom.

Article 6. — Irrevocable credits may be advised to the beneficiary through an advising Bank without responsibility on the latter's part.

Article 7. — When a Bank is instructed to issue, confirm or advise a credit similar in terms to one previously issued and the credit to which reference is made contains amendments, it shall be understood that the details of the credit being issued, confirmed or advised will be transmitted to the beneficiary inclusive of the amendments, unless instructions to the contrary are contained in the instructions.

Article 8. — In the event of the period of validity of a credit not being stipulated in an order to issue or confirm an irrevocable credit, the Bank may advise the beneficiary of the credit for information only, and this implies no responsibility on the part of the Bank doing so. The credit will only be issued or confirmed later when supplementary details on the duration of validity have been received.

B. — Liability

Article 9. — Banks must examine all documents and papers with

care so as to ascertain that on their face they appear to be in order.

Article 10. — In documentary credit operations, all parties concerned deal in documents and not in goods. Payment, negotiation or acceptance against documents in accordance with the terms and conditions of a credit by a Bank authorized to do so binds the party giving the authorization to take up the documents and reimburse the Bank making the payment, negotiation or acceptance.

If the documents, on their face, are not as stipulated by the terms and conditions of the credit, the issuing Bank must, upon receipt of the documents, determine, on the basis of the documents alone, whether or not to claim that payment, negotiation or acceptance was not made in accordance with the terms and conditions of the credit.

If such claim is to be made, notice to that effect, stating the reasons therefor, must be given by cable or other expeditious means to the Bank demanding reimbursement and such notice must state that the documents are being held at the disposal of such Bank or are being returned thereto. The issuing Bank shall have a reasonable time to examine the documents.

Article 11. — Banks assume no liability or responsibility for the form, sufficiency, correctness, genuineness, falsification or legal effect of any documents or papers, or for the description, quantity, weight, quality, condition, packing, delivery or value of goods represented thereby, or for the general and/or particular conditions stipulated in the documents, or for the good faith or acts of the consigner or any other person whomsoever, or for the solvency, standing, etc., of the carriers or insurers of the goods.

Article 12. — Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any messages, letters, and/or documents, or for delay, mutilation or other errors in the transmission of cables, telegrams, or other mechanically transmitted messages, or for errors in translation or interpretation of technical terms, and Banks reserve the right to transmit credit terms without translating them.

Article 13. — Banks assume no liability or responsibility for consequences arising out of the interruption of their business either by a decision of a public authority, or by strikes, lockouts, riots, wars, acts of God or other causes beyond their control. On credits expiring during such interruption of business, Banks will be able to make no settlement after expiration unless specifically authorized.

Article 14. — Banks are authorized to make provision for credits with other Banks, for the account and at the risk of the applicants for the credits.

Banks utilizing the services of another Bank assume no liability or responsibility (unless they themselves are at fault) should the instructions they transmit not be carried out exactly, even if they have themselves taken the initiative in the choice of their correspondent.

The applicants for the credit are responsible to the Banks for all obligations imposed upon the latter by foreign laws and customs.

C. — Documents

Article 15. — Unless otherwise instructed, Banks consider themselves authorized to honour the documents which they judge necessary, if presented in a suitable form, viz.:

(a) In Maritime traffic:

Full set of Sea or Ocean Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

(b) In Inland traffic:

Full set of Inland Waterway Bills of Lading in negotiable and transferable form, or
Inland Waterway Consignment Note, or
Railroad Consignment Note, or
Counterfoil Waybill, or
Railroad Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

(c) In Postal traffic:

Postal Receipt; or
Certificate of Mailing issued by the Postal Authorities;
Transferable Policy or Certificate of Insurance;
Invoice.

(d) In Airway traffic:

Air Mail Receipt or Air Transportation Waybill or
Air Consignment Note or Receipt;

Transferable Policy or Certificate of Insurance;
Invoice.

Banks have the right to waive insurance papers on proof satisfactory to them that the insurance is covered.

Article 16. — Except as stated in Article 23, the date of the Bill of Lading, or date indicated on the reception stamp of the Railway or Inland Waterway Bills of Lading or Consignment Notes, Counterfoil Waybills, Postal Receipts, Certificates of Mailing, Air Mail Receipts, Air Transportation Waybills, Consignment Notes or Receipts, Trucking Companies Bills of Lading, or other shipping documents will be taken in each case to be the date of shipment of the goods.

Article 17. — Proof of payment of the freight will be considered sufficient if the words "freight paid" or "freight prepaid" or words of similar import appear by stamp or otherwise on the shipping documents. If the shipping documents contain the words "freight pre-payable" or "freight to be prepaid" or words of similar import, they will not be accepted as constituting evidence of the payment of freight.

Article 18. — Shipping documents bearing reservations as to the apparent good order and condition of the goods and the packaging may be refused.

A clean shipping document is one which bears no superimposed clauses expressly declaring a defective condition of the goods or packaging.

The following should not be considered such reservations: (a) clauses which do not expressly state that the goods or packaging are unsatisfactory, e.g. "second-hand cases", "used drums", etc.; (b) clauses which emphasize carriers' non-liability for risks arising through the nature of the goods or the packaging; (c) clauses which disclaim on the part of the carrier knowledge of contents, weight, measurement, quality, or technical specification of the goods.

Unless otherwise specified in the credit or inconsistent with any of the documents presented under the credit, Banks may honor documents stating that freight or transportation charges are payable on delivery.

Bills of Lading

Article 19. — When Sea or Ocean Bills of Lading are required, the following may be accepted:

(a) "Received for Shipment", "Alongside", "Shipped" or "On Board" Bills of Lading.

(b) "Port" or "Custody" Bills of Lading for shipments of cotton from the United States of America.

(c) "Through Bills of Lading" issued by steamship companies or their agents.

Regardless of the type of Bills of Lading required by a credit (including "Shipped" or "On Board" Bills of Lading), Bills of Lading which, apart from printed clauses, permit transshipment enroute, may be accepted provided the entire voyage is covered by one and the same Bill of Lading. If expressions such as "direct shipment", "without transshipment" or "transshipment not permitted" are used in credits, Bills of Lading which do not specifically indicate that the merchandise is to be transshipped may be accepted.

Article 20. — Bills of Lading issued by forwarding agents will be refused, as also Bills of Lading for shipment by sailing vessels.

Bills of Lading which are issued under and are subject to the conditions of a Charter Party are only accepted under special instructions to that effect.

Article 21. — Banks have the right to refuse Bills of Lading mentioning the stowage of goods on deck but may accept such Bills of Lading when the documents presented include an insurance policy or certificate mentioning that the goods are stowed on deck.

Article 22. — When shipment by steamship is required, Banks may consider themselves authorized to accept Bills of Lading for shipment by motor vessels or vice-versa.

Article 23. — When a shipment is stipulated "On Board", the loading on board can be evidenced by means of a notation signed or initialled on behalf of the carrier. If the Bill of Lading is presented after the ultimate shipment date specified in the credit, the said notation must be dated and this date shall be considered as the date of loading on board and shipment.

Article 24. — Banks have the right to require that the name of the beneficiary of the credit appears on the Bill of Lading as shipper or endorser.

Railway Bills of Lading, etc.

Article 25. — Banks will consider Railway or Inland Waterway Bills of Lading or Consignment notes, Counterfoil Waybills, Postal Receipts, Airway Bills or Receipts, or Trucking Bills of Lading as regular

when they bear the reception stamp of the carrier, or issuer, or when they bear a signature.

Article 26. — When an attestation or certificate of weight is required in the case of railway transport, Banks may refer to the indications contained in the shipping documents, on condition that weighing has been duly witnessed by means of a weight stamp or other official means. A weight attestation will only be required on special request.

Article 27. — If, in the case of shipment by rail, by inland waterway, by truck, by air, or by post, the name of the beneficiary does not appear on the transport documents, Banks may require them to be countersigned by him.

Insurance

Article 28. — Policies and Certificates of Insurance issued by companies or their agents or by brokers or by underwriters are acceptable.

Unless otherwise specified, such insurance must be issued in the currency of the credit and Banks may, in their discretion, refuse any Insurance Policies or Certificates presented if they bear a date later than the date of shipment as evidenced by the shipping documents.

Article 29. — The minimum value insured must be the C.I.F. value of the goods as evidenced by the documents tendered, but in no case should it be less than the amount of the drawings under the credit, or than the amount of the commercial invoice if the latter is higher.

Article 30. — Failing instructions as to the risks to be covered or when a credit stipulates that insurance cover "usual risks" or "customary risks" or insurance requirements of similar import, Banks may accept insurance documents as tendered without responsibility on their part.

Article 31. — When a credit stipulates "Insurance against all Risks" Banks can in no way be held responsible if any particular risk is not covered.

When a credit provides for insurance "with particular average" Banks may accept insurance policies or certificates which indicate that such particular average is subject to a franchise unless it is specifically indicated in the credit that the Particular Average Insurance must be issued "irrespective of percentage".

Invoices

Article 32. — Invoices must be made out in the name of the ap-

plicant for the credit or in the name of any other person as required in the credit.

Payment of such Invoices may be refused if they have been issued for an amount in excess of the credit amount.

Article 33. — The description of the goods in the Commercial Invoice must correspond with the description in the credit. Wherever the goods are described in the remaining documents, description in general terms will be acceptable.

Other Documents

Article 34. — When other documents are required, such as: Warehouse Receipts, Delivery Orders, Consular Invoices, Certificates of Origin, Certificates of Weight, of Quality or of Analysis, etc., without further definition, Banks may accept such documents as tendered without responsibility on their part.

D. — Interpretation of Terms

Article 35. — The terms "about", "circa" or similar expressions are to be construed as allowing a difference not to exceed 10% more or less applicable, according to their place in the instructions, to the amount of the credit or to the quantity or unit price of the goods.

When the credit does not specify quantity in terms of packing units or containers or individual items, a difference of 3% more or less will be allowed on the total quantity specified in the credit, even if the terms of the credit call for a fixed weight or measurement, unless the credit expressly stipulates that the quantity specified may not be exceeded or reduced.

Partial Shipments

Article 36. — Unless otherwise expressly stipulated, Banks may pay, accept or negotiate for partial shipments, even though the credit mentions the name of a vessel and when partial shipment is made by that vessel.

Article 37. — If shipment by instalments within given periods is specified, each instalment shall be treated as a separate transaction. The instalment not shipped within a given period cannot be added to subsequent shipments and is considered as *ipso facto* cancelled. Banks may,

however, pay against documents for subsequent shipments provided they are made within the given periods.

Maturity or Validity

Article 38. — All irrevocable credits must stipulate an expiry date for payment, acceptance or negotiation notwithstanding the indication of a date of shipment.

Article 39. — The words "to", "until", "till" and words of similar import applying to dates of maturity for payment, acceptance, negotiation or shipment are understood to include the date mentioned.

Article 40. — When the stipulated expiry date falls on a Sunday or legal or local holiday, or upon any other closing day for the Banks, the last day of the period of validity will be extended until the first following business day. This does not apply to the last day for shipment which must be respected whatever the day.

Article 41. — The validity of a revocable credit, if no date is specified, will be considered to have expired six months from the date of the notification sent to the beneficiary by the Bank with which the credit is available.

Shipment, Loading or Dispatch

Article 42. — "Prompt", "immediately", "as soon as possible", etc.: these terms and others of similar import, are to be interpreted as a request for shipment within thirty days from the notification to the beneficiary, unless a date has been stipulated.

When the words "departure", "dispatch", or "loading" are used in Commercial Documentary Credits for the fixation of the latest date for shipment of the goods, and unless specific evidence in respect thereto is required, the Banks will consider these words as synonymous to "shipment", and they may be guided by the date appearing upon the Bills of Lading or other shipping documents.

Presentation

Article 43. — Documents must be presented within a reasonable time after issuance. Paying, negotiating or accepting Banks may refuse documents if in their judgment, they are presented to them with undue delay.

Article 44. — Banks are under no obligation to accept documents outside their banking hours.

Extension

Article 45. — Any extension of the period for shipment shall extend for an equal period the time fixed for presentation or negotiation of documents or drafts, but an extension of a date for presentation or negotiation of documents or drafts shall not extend a time fixed for shipment unless expressly stated.

Date Terms

Article 46. — The terms "first half", "second half" of a month shall be construed respectively as from the 1st to the 15th, and the 16th to the last day of each month, inclusive.

Article 47. — The terms "beginning", "middle", or "end" of a month shall be construed respectively as from the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of each month, inclusive.

Article 48. — When a credit is opened by an opening Bank requesting that the credit be advised or confirmed as good "for 1 month", "for 6 months", or the like, but the opening Bank has not specified the date from which the time is to run, the advising or confirming Bank may advise or confirm the credit as terminating at the end of the corresponding period from the date of its advice or confirmation.

E. — Transfer

Article 49. — A transferable or assignable credit is a credit in which the paying or negotiating Bank is entitled to pay in whole or in part to a third party or parties on instructions given by the first beneficiary.

A credit can be transferred only on the express authority of the opening Bank and provided that it is expressly designated as "transferable" or "assignable". In such case the credit can be transferred once only (that is to say that the third party or parties designated by the first beneficiary are not entitled to retransfer it) and on the terms and conditions specified in the original credit, with the exception of the amount of the credit, of any unit price stated therein, and of the time of validity or of shipping, any or all of which may be reduced or curtailed. In the event of

any reduction in amount or unit price, a transferer may be permitted to substitute his own invoices for those of the transferee, for amounts or unit prices greater than those set forth in the transferee's invoices, but not in excess of the original sum stipulated in the credit, and upon such substitution of invoices, the transferer may draw under the credit for the difference between his invoices and the transferee's invoices.

Fractions of a transferable or assignable credit (not exceeding in the aggregate the amount of the entire credit) may be transferred separately provided partial shipments are not excluded, and the aggregate of such transfers will be considered as constituting only one transfer of the entire credit.

Authority to transfer a credit includes authority to transfer it to a beneficiary in another place whether in the same country or not, unless otherwise specified (*). During the validity of the credit as transferred, payment or negotiation may be made at the place to which the credit has been transferred.

Bank charges entailed by transfers are payable by the first beneficiary unless otherwise specified.

No transfer shall be binding upon the Bank which is to act thereunder except to the extent and in the manner expressly consented to by such Bank, and until such Bank's charges for transfer are paid.

(*)In the United States, when credits are transferred to a beneficiary in another place whether in the same country or not, the credits may be changed from one requiring payment on or before a certain date to one requiring negotiation on or before that date, and during the validity of the credit as transferred, payment or negotiation may be made at the place to which the credit has been transferred.

NOTE: *In the U.S.A. the Definitions of Export Quotations, which are now in wide use, are known as the "Revised American Foreign Trade Definitions—1941" adopted July 30, 1941. These are reproduced in their entirety in the following pages.*

American Foreign Trade Definitions

Manufacturers and exporters are urged to bear in mind that confusion and controversy may arise unless both parties to a contract have a clear and accurate knowledge of the meaning of abbreviations commonly used in the export trade. It is much better to take the time at the outset to make a quotation clearly understood than to be compelled in the end to go through vexatious disputes or litigation which costs not only time and money but customers as well. Misunderstandings can best be avoided if the seller will formulate a written statement of the general conditions under which his sales are to be made, and will see that the foreign buyer possesses these terms of sale when considering a quotation. Items which might be included in such a statement deal with delivery, delays, partial shipments, shipping instructions, inspection, claims, damage and payment. If the contingencies are thus covered by carefully considered conditions of sale, disputes will largely be prevented. A great deal of work has been done in order to arrive at acceptable definitions of terms used in foreign trade.

On July 30, 1941 a joint committee representing the Chamber of Commerce of the United States of America, the National Council of American Importers, Inc., and the National Foreign Trade Council, Inc., adopted a set of definitions known as "Revised American Foreign Trade Definitions — 1941". These definitions were incorporated in a pamphlet issued by the National Foreign Trade Council Inc., the complete text of which follows:

Foreword

Since the issuance of *American Foreign Trade Definitions* in 1919, many changes in practice have occurred. The 1919 Definitions did much to clarify and simplify foreign trade practice, and received wide recognition

and use by buyers and sellers throughout the world. At the Twenty-Seventh National Foreign Trade Convention, 1940, further revision and clarification of these Definitions was urged as necessary to assist the foreign trader in the handling of his transactions.

The following *Revised American Foreign Trade Definitions — 1941* are recommended for general use by both exporters and importers. These revised definitions have no status at law unless there is specific legislation providing for them, or unless they are confirmed by court decisions. Hence, it is suggested that sellers and buyers agree to their acceptance as part of the contract of sale. These revised definitions will then become legally binding upon all parties.

In view of changes in practice and procedure since 1919, certain new responsibilities for sellers and buyers are included in these revised definitions. Also, in many instances, the old responsibilities are more clearly defined than in the 1919 Definitions, and the changes should be beneficial both to sellers and buyers. Widespread acceptance will lead to a greater standardization of foreign trade procedure, and to the avoidance of much misunderstanding.

Adoption by exporters and importers of these revised terms will impress on all parties concerned their respective responsibilities and rights.

General Notes of Caution

1. As foreign trade definitions have been issued by organizations in various parts of the world, and as the courts of countries have interpreted these definitions in different ways, it is important that sellers and buyers agree that their contracts are subject to the *Revised American Foreign Trade Definitions — 1941* and that the various points listed are accepted by both parties.

2. In addition to the foreign trade terms listed herein, there are terms that are at times used, such as Free Harbor, C.I.F. & C. (Cost, Insurance, Freight, and Commission), C.I.F.C. & I. (Cost, Insurance, Freight, Commission, and Interest), C.I.F. Landed (Cost, Insurance, Freight, Landed), and others. None of these should be used unless there has first been a definite understanding as to the exact meaning thereof. It is unwise to attempt to interpret other terms in the light of the terms given herein. Hence, whenever possible, one of the terms defined herein should be used.

3. It is unwise to use abbreviations in quotations or in contracts which might be subject to misunderstanding.

4. When making quotations, the familiar terms "hundredweight" or "ton" should be avoided. A hundredweight can be 100 pounds of the short ton, or 112 pounds of the long ton. A ton can be a short ton of 2,000 pounds, or a metric ton of 2,204.6 pounds, or a long ton of 2,240 pounds. Hence, the type of hundredweight or ton should be clearly stated in quotations and in sales confirmations. Also, all terms referring to quantity, weight, volume, length, or surface should be clearly defined and agreed upon.

5. If inspection, or certificate of inspection, is required, it should be agreed, in advance, whether the cost thereof is for account of seller or buyer.

6. Unless otherwise agreed upon, all expenses are for the account of seller up to the point at which the buyer must handle the subsequent movement of goods.

7. There are a number of elements in a contract that do not fall within the scope of these foreign trade definitions. Hence, no mention of these is made herein. Seller and buyer should agree to these separately when negotiating contracts. This particularly applies to so-called "customary" practices.

Definitions of Quotations

(I) EX (Point of Origin)

"EX FACTORY", "EX MILL", "EX MINE", "EX PLANTATION", "EX WAREHOUSE", etc. (named point of origin).

Under this term, the price quoted applies only at the point of origin, and the seller agrees to place the goods at the disposal of the buyer at the agreed place on the date or within the period fixed.

Under this quotation:

Seller must

(1) bear all costs and risks of the goods until such time as the buyer is obliged to take delivery thereof;

(2) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation or of importation at destination.

Buyer must

(1) take delivery of the goods as soon as they have been placed at

his disposal at the agreed place on the date or within the period fixed;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) bear all costs and risks of the goods from the time when he is obligated to take delivery thereof;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation or of importation at destination.

(II) F.O.B. (Free on Board)

NOTE: *Seller and buyer should consider not only the definitions but also the "Comments on All F.O.B. Terms" given at end of this section (page 116), in order to understand fully their respective responsibilities and rights under the several classes of "F.O.B." terms.*

(II-A) "F.O.B. (named inland carrier at named inland point of departure)"*

Under this term, the price quoted applies only at inland shipping point, and the seller arranges for loading of the goods on, or in, railway cars, trucks, lighters, barges, aircraft, or other conveyance furnished for transportation.

Under this quotation:

Seller must

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading;

(2) provide clean bill of lading or other transportation receipt, freight collect;

(3) be responsible for any loss or damage, or both, until goods have been placed in, or on, conveyance at loading point, and clean bill of lading or other transportation receipt has been furnished by the carrier;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

*See Note above and Comments on All F.O.B. Terms (page 116).

Buyer must

(1) be responsible for all movement of the goods from inland point of loading, and pay all transportation costs;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) be responsible for any loss or damage, or both, incurred after loading at named inland point of departure;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II-B) "F.O.B. (named inland carrier at named inland point of departure)
FREIGHT PREPAID TO (named point of exportation)"*

Under this term, the seller quotes a price including transportation charges to the named point of exportation and prepays freight to named point of exportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation:

Seller must

(1) assume the seller's obligations as under II-A (page 111), except that under (2) he must provide clean bill of lading or other transportation receipt, freight prepaid to named point of exportation.

Buyer must

(1) assume the same buyer's obligations as under II-A (page 111), except that he does not pay freight from loading point to named point of exportation.

(II-C) "F.O.B. (named inland carrier at named inland point of departure)
FREIGHT ALLOWED TO (named point)"*

Under this term, the seller quotes a price including the transportation charges to the named point, shipping freight collect and deducting the cost of transportation, without assuming responsibility for the goods

*See Note (page 111) and Comments on all F.O.B. Terms (page 116).

after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

Under this quotation:

Seller must

(1) assume the same seller's obligations as under II-A (page 111), but deducts from his invoice the transportation cost to named point.

Buyer must

(1) assume the same buyer's obligations as under II-A (page 111), including payment of freight from inland loading point to named point, for which seller has made deduction.

(II-D) "F.O.B. (named inland carrier at named point of exportation)"*

Under this term, the seller quotes a price including the costs of transportation of the goods to named point of exportation, bearing any loss or damage, or both, incurred up to that point.

Under this quotation:

Seller must

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading:

(2) provide clean bill of lading or other transportation receipt, paying all transportation costs from loading point to named point of exportation;

(3) be responsible for any loss or damage, or both, until goods have arrived in, or on, inland conveyance at the named point of exportation;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) be responsible for all movement of the goods from inland conveyance at named point of exportation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

*See Note (page 111) and Comments on all F.O.B. Terms (page 116).

(3) be responsible for any loss or damage, or both, incurred after goods have arrived in, or on, inland conveyance at the named point of exportation;
(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II-E) "F.O.B. VESSEL (named port of shipment)"*

Under this term, the seller quotes a price covering all expenses up to, and including, delivery of the goods upon the overseas vessel provided by, or for, the buyer at the named port of shipment.

Under this quotation:

Seller must

(1) pay all charges incurred in placing goods actually on board the vessel designated and provided by, or for, the buyer on the date or within the period fixed;
(2) provide clean ship's receipt or on-board bill of lading;
(3) be responsible for any loss or damage, or both, until goods have been placed on board the vessel on the date or within the period fixed;
(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;
(2) bear the additional costs incurred and all risks of the goods from the time when the seller has placed them at his disposal if the vessel named by him fails to arrive or to load within the designated time;
(3) handle all subsequent movement of the goods to destination:
  (a) provide and pay for insurance;
  (b) provide and pay for ocean and other transportation;
(4) pay export taxes, or other fees or charges, if any, levied because of exportation;

*See Note (page 111) and Comments on all F.O.B. Terms (page 116).

(5) be responsible for any loss or damage, or both, after goods have been loaded on board the vessel;
(6) pay all costs and charges incurred in obtaining the documents, other than clean ship's receipt or bill of lading, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

(II-F) "F.O.B. (named inland point in country of importation)"*

Under this term, the seller quotes a price including the cost of the merchandise and all costs of transportation to the named inland point in the country of importation.
Under this quotation:
Seller must
(1) provide and pay for all transportation to the named inland point in the country of importation;
(2) pay export taxes, or other fees or charges, if any, levied because of exportation;
(3) provide and pay for marine insurance;
(4) provide and pay for war risk insurance, unless otherwise agreed upon between the seller and buyer;
(5) be responsible for any loss or damage, or both, until arrival of goods on conveyance at the named inland point in the country of importation;
(6) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;
(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;
(8) pay all costs of customs entry in the country of importation;
(9) pay customs duties and all taxes applicable to imports, if any, in the country of importation.

NOTE: *The seller under this quotation must realize that he is accepting important responsibilities, costs, and risks, and should therefore be certain to obtain adequate insurance. On the other hand, the im-*

*See Note (page 111) and Comments on all F.O.B. Terms (page 116).

porter or buyer may desire such quotations to relieve him of the risks of the voyage and to assure him of his landed costs at inland point in country of importation. When competition is keen, or the buyer is accustomed to such quotations from other sellers, seller may quote such terms, being careful to protect himself in an appropriate manner.

Buyer must

(1) take prompt delivery of goods from conveyance upon arrival at destination;

(2) bear any costs and be responsible for all loss or damage, or both, after arrival at destination.

Comments On All F.O.B. Terms

In connection with F.O.B. terms, the following points of caution are recommended:

1. The method of inland transportation, such as trucks, railroad cars, lighters, barges, or aircraft should be specified.

2. If any switching charges are involved during the inland transportation, it should be agreed, in advance, whether these charges are for account of the seller or the buyer.

3. The term "F.O.B. (named port)", without designating the exact point at which the liability of the seller terminates and the liability of the buyer begins, should be avoided. The use of this term gives rise to disputes as to the liability of the seller or the buyer in the event of loss or damage arising while the goods are in port, and before delivery to or on board the ocean carrier. Misunderstandings may be avoided by naming the specific point of delivery.

4. If lighterage or trucking is required in the transfer of goods from the inland conveyance to ship's side, and there is a cost therefor, it should be understood, in advance, whether this cost is for account of the seller or the buyer.

5. The seller should be certain to notify the buyer of the minimum quantity required to obtain a carload, a truckload, or a barge-load freight rate.

6. Under F.O.B. terms, excepting "F.O.B. (named inland point in country of importation)", the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains the ocean

freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

7. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

(III) F.A.S. (Free Along Side)

NOTE: *Seller and buyer should consider not only the definitions but also the "Comments" given on the next page, in order to understand fully their respective responsibilities and rights under "F.A.S." terms.*

"F.A.S. VESSEL (named port of shipment)"

Under this term, the seller quotes a price including delivery of the goods along side overseas vessel and within reach of its loading tackle.

Under this quotation:

Seller must

(1) place goods along side vessel or on dock designated and provided by, or for, buyer on the date or within the period fixed; pay any heavy lift charges, where necessary, up to this point;

(2) provide clean dock or ship's receipt;

(3) be responsible for any loss or damage, or both, until goods have been delivered along side the vessel or on the dock;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

Buyer must

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;

(2) handle all subsequent movement of the goods from along side the vessel:

(a) arrange and pay for demurrage or storage charges, or both, in warehouse or on wharf, where necessary;

(b) provide and pay for insurance;

(c) provide and pay for ocean and other transportation;

(3) pay export taxes, or other fees or charges, if any, levied because of exportation;

(4) be responsible for any loss or damage, or both, while the goods are on a lighter or other conveyance along side vessel within reach of its loading tackle, or on the dock awaiting loading, or until actually loaded on board the vessel, and subsequent thereto;

(5) pay all costs and charges incurred in obtaining the documents, other than clean dock or ship's receipt, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation or of importation at destination.

F.A.S. Comments

1. Under F.A.S. terms, the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. In others, the buyer notifies the seller to make delivery along side a vessel designated by the buyer and the buyer provides his own marine and war risk insurance. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

2. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

(IV) C. & F. (Cost and Freight)

NOTE: *Seller and buyer should consider not only the definitions but also the "C. & F. Comments" (page 119) and the "C. & F. and C.I.F. Comments" (page 121), in order to understand fully their respective responsibilities and rights under "C. & F." terms.*

"C. & F. (named point of destination)"

Under this term, the seller quotes a price including the cost of transportation to the named point of destination.

Under this quotation:

Seller must

(1) provide and pay for transportation to named point of destination;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination;

(4) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;

(5) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;

(6) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

Buyer must

(1) accept the documents when presented;

(2) receive goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;

(3) provide and pay for insurance;

(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (4) or (5) above have ceased;

(5) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which may be required for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. Comments

1. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

2. The comments listed under the following C.I.F. terms in many cases apply to C. & F. terms as well, and should be read and understood by the C. & F. seller and buyer.

(V) C.I.F. (Cost, Insurance, Freight)

NOTE: *Seller and buyer should consider not only the definitions but also the "Comments" on the opposite page, in order to understand fully their respective responsibilities and rights under "C.I.F." terms.*

"C.I.F. (named point of destination)"

Under this term, the seller quotes a price including the cost of the goods, the marine insurance, and all transportation charges to the named point of destination.

Under this quotation:

Seller must

(1) provide and pay for transportation to named point of destination;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) provide and pay for marine insurance;

(4) provide war risk insurance as obtainable in seller's market at time of shipment at buyer's expense, unless seller has agreed that buyer provide for war risk coverage (See Comment 10(c), page 123);

(5) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination, and also insurance policy or negotiable insurance certificate;

(6) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;

(7) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;

(8) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which the buyer may require for importation of goods into country of destina-

tion and, where necessary, for their passage in transit through another country.

Buyer must

(1) accept the documents when presented;

(2) receive the goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;

(3) pay for war risk insurance provided by seller;

(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (6) or (7) above have ceased;

(5) pay the cost of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which may be required for importation of the goods into the country of destination and, where necessary, for their passage in transit through another country.

C. & F. and C.I.F. Comments

Under C. & F. and C.I.F. contracts there are the following points on which the seller and the buyer should be in complete agreement at the time that the contract is concluded:

1. It should be agreed upon, in advance, who is to pay for miscellaneous expenses, such as weighing or inspection charges.

2. The quantity to be shipped on any one vessel should be agreed upon, in advance, with a view to the buyer's capacity to take delivery upon arrival and discharge of the vessel; within the free time allowed at the port of importation.

3. Although the terms C. & F. and C.I.F. are generally interpreted to provide that charges for consular invoices and certificates of origin are for the account of the buyer, and are charged separately, in many trades these charges are included by the seller in his price. Hence, seller and buyer should agree, in advance, whether these charges are part of the selling price, or will be invoiced separately.

4. The point of final destination should be definitely known in the event the vessel discharges at a port other than the actual destination of the goods.

5. When ocean freight space is difficult to obtain, or forward freight contracts cannot be made at firm rates, it is advisable that sales contracts, as an exception to regular C. & F. or C.I.F. terms, should provide that shipment within the contract period be subject to ocean freight space being available to the seller, and should also provide that changes in the cost of ocean transportation between the time of sale and the time of shipment be for account of the buyer.

6. Normally, the seller is obligated to prepay the ocean freight. In some instances, shipments are made freight collect and the amount of the freight is deducted from the invoice rendered by the seller. It is necessary to be in agreement on this, in advance, in order to avoid misunderstanding which arises from foreign exchange fluctuations which might affect the actual cost of transportation, and from interest charges which might accrue under letter of credit financing. Hence, the seller should always prepay the ocean freight unless he has a specific agreement with the buyer, in advance, that goods can be shipped freight collect.

7. The buyer should recognize that he does not have the right to insist on inspection of goods prior to accepting the documents. The buyer should not refuse to take delivery of goods on account of delay in the receipt of documents, provided the seller has used due diligence in their dispatch through the regular channels.

8. Sellers and buyers are advised against including in a C.I.F. contract any indefinite clause at variance with the obligations of a C.I.F. contract as specified in these Definitions. There have been numerous court decisions in the United States and other countries invalidating C.I.F. contracts because of the inclusion of indefinite clauses.

9. Interest charges should be included in cost computations and should not be charged as a separate item in C.I.F. contracts, unless otherwise agreed upon, in advance, between the seller and buyer; in which case, however, the term C.I.F. and I. (Cost, Insurance, Freight and Interest) should be used.

10. In connection with insurance under C.I.F. sales, it is necessary that seller and buyer be definitely in accord upon the following points:

(a) The character of the marine insurance should be agreed upon in so far as being W.A. (With Average) or F.P.A. (Free of Particular Average), as well as any other special risks that are covered in specific trades, or against which the buyer may wish individual protection. Among the special risks that should be considered and agreed upon between

seller and buyer are theft, pilferage, leakage, breakage, sweat, contact with other cargoes, and others peculiar to any particular trade. It is important that contingent or collect freight and customs duty should be insured to cover Particular Average losses, as well as total loss after arrival and entry but before delivery.

(b) The seller is obligated to exercise ordinary care and diligence in selecting an underwriter that is in good financial standing. However, the risk of obtaining settlement of insurance claims rests with the buyer.

(c) War risk insurance under this term is to be obtained by the seller at the expense and risk of the buyer. It is important that the seller be in definite accord with the buyer on this point, particularly as to the cost. It is desirable that the goods be insured against both marine and war risk with the same underwriter, so that there can be no difficulty arising from the determination of the cause of the loss.

(d) Seller should make certain that in his marine or war risk insurance, there be included the standard protection against strikes, riots and civil commotions.

(e) Seller and buyer should be in accord as to the insured valuation, bearing in mind that merchandise contributes in General Average on certain bases of valuation which differ in various trades. It is desirable that a competent insurance broker be consulted, in order that full value be covered and trouble avoided.

(VI) Ex Dock

"EX DOCK (named port of importation)"

NOTE: *Seller and buyer should consider not only the definitions but also the "Ex Dock Comments" overleaf, in order to understand fully their respective responsibilities and rights under "Ex Dock" terms.*

Under this term, seller quotes a price including the cost of the goods and all additional costs necessary to place the goods on the dock at the named port of importation, duty paid, if any.

Under this quotation:

Seller must

(1) provide and pay for transportation to named port of importation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) provide and pay for marine insurance;

(4) provide and pay for war risk insurance, unless otherwise agreed upon between the buyer and seller;
(5) be responsible for any loss or damage, or both, until the expiration of the free time allowed on the dock at the named port of importation;
(6) pay the costs of certificates of origin, consular invoices, legalization of bill of lading, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;
(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;
(8) pay all costs of customs entry in the country of importation;
(9) pay customs duties and all taxes applicable to imports, if any, in the country of importation, unless otherwise agreed upon.

Buyer must

(1) take delivery of the goods on the dock at the named port of importation within the free time allowed;
(2) bear the cost and risk of the goods if delivery is not taken within the free time allowed.

Ex Dock Comments

This term is used principally in United States import trade. It has various modifications, such as "Ex Quay", "Ex Pier", etc., but it is seldom, if ever, used in American export practice. Its use in quotations for export is not recommended.

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SPECIMENS

SPEC. 37 (4-54)

TO THE MANAGER

THE ROYAL BANK OF CANADA

_____ (BRANCH) MONTREAL, 1, P.Q. _____ 19____

DEAR SIR:

WE ENCLOSE FOR COLLECTION THE DRAFT(S) AND DOCUMENTS DESCRIBED AS FOLLOWS:

DOCUMENTARY BILLS

DRAFT NO.	DATE	TENOR	DRAWEE	CITY OR TOWN	COUNTRY	AMOUNT

DOCUMENTS ENCLOSED

BILLS OF LADING	INSURANCE POLICY CERTIFICATES	INVOICES AND LETTERS	CONSULAR INVOICES	CERTIFICATE OF ORIGIN	OTHER DOCUMENTS

INSTRUCTIONS

PLEASE FOLLOW INSTRUCTIONS MARKED X

☐ DELIVER DOCUMENTS AGAINST..... ☐ PAYMENT ☐ ACCEPTANCE

☐ HAVE NON-ACCEPTANCE ADVISED BY..... ☐ MAIL ☐ CABLE

☐ HAVE NON-PAYMENT ADVISED BY..... ☐ MAIL ☐ CABLE

☐ BANK CHARGES FOR ACCOUNT OF..... ☐ DRAWEE ☐ DRAWER

☐ HOLD FOR ARRIVAL OF GOODS BEFORE PRESENTING.

☐ IF DISHONORED, OR IF NECESSARY WAREHOUSE AND INSURE GOODS.

☐ DO NOT PROTEST ☐ PROTEST

☐

☒ IN CASE OF NEED REFER TO

NAME.....

ADDRESS.....

WHO IS FULLY EMPOWERED BY US TO

☐ ACT FULLY ON OUR BEHALF, I.E., AUTHORIZE REDUCTIONS, EXTENSIONS, FREE DELIVERY, WAIVING OF PROTEST, ETC.

☐ ASSIST IN OBTAINING ACCEPTANCE OR PAYMENT OF DRAFT AS DRAWN, BUT NOT TO ALTER ITS TERMS IN ANY WAY.

SPECIAL INSTRUCTIONS

YOURS TRULY,

_____

_____

CUSTOMER'S LETTER OF INSTRUCTIONS RE COLLECTIONS

DOCUMENTARY DRAFTS

THE ROYAL BANK OF CANADA

D.O.P.

SF 38H (8-55)

TORONTO, ONTARIO OCTOBER 31, 19 57 $40,000.00 U.S.

All charges for drawees account

AT ~~xxxx~~ SIGHT of this FIRST of Exchange (second unpaid)

pay to the order of ROYAL MALTING COMPANY, LIMITED

the sum of FORTY THOUSAND XX/100 UNITED STATES DOLLARS

Value received.

To Brazilian Brewery Co.
Rio de Janeiro, Brazil

ROYAL MALTING COMPANY LIMITED
Per: J. Anderson

THE ROYAL BANK OF CANADA

D.O.P.

SF 38H (8-55)

TORONTO, ONTARIO OCTOBER 31, 19 57 $40,000.00 U.S.

All charges for drawees account

AT ~~xxxx~~ SIGHT of this SECOND of Exchange (first unpaid)

pay to the order of ROYAL MALTING COMPANY LIMITED

the sum of FORTY THOUSAND XX/100 UNITED STATES DOLLARS

Value received.

To Brazilian Brewery Co.
Rio de Janeiro, Brazil

ROYAL MALTING COMPANY LIMITED
PER: J. Anderson

SEE INSTRUCTIONS ON REVERSE

LC 146 (4-50)

APPLICATION FOR COMMERCIAL LETTER OF CREDIT

Rio de Janeiro, Brazil
October 1st 19 57

THE MANAGER
THE ROYAL BANK OF CANADA.

Rio de Janeiro, Brazil

1. PLEASE ISSUE ☒ BY AIR MAIL ☐ BY CABLE ☐ BY MAIL FOR ~~XX~~ CDN ACCOUNT ~~XXXXXXXXX~~ AN IRREVOCABLE DOCUMENTARY CREDIT AS FOLLOWS:
2. IN FAVOUR OF Royal Malting Company, Limited, Toronto, Ontario
3. FOR ACCOUNT OF Brazilian Brewery Co., Rio de Janeiro, Brazil
4. UP TO AN AGGREGATE AMOUNT OF Forty thousand XX/100 United States dollars ($40,000.00 U.S.)
5. AVAILABLE BY DRAFTS AT 90 Days Sight DRAWN AT YOUR OPTION
6. ON YOU OR YOUR CORRESPONDENTS FOR 100 % OF THE INVOICE VALUE.
7. COVERING SHIPMENT OF 250 Metric Tons Malt packed in Jute Bags @ $160.00 U.S. per metric ton CIF Rio de Janeiro per "MORMACSTAR"

PARTIAL SHIPMENTS PERMITTED NO (YES OR NO)

8. FROM Montreal, P.Q. TO Rio de Janeiro, Brazil
9. BILLS OF LADING TO BE DATED NOT LATER THAN October 31, 1957

DOCUMENTS REQUIRED: (PLEASE INDICATE BY "X")

10. ☒ FULL SET OF Clean On Board BILLS OF LADING MADE OUT
11. TO ORDER OF Shipper, blank endorsed, marked "Notify Brazilian Brewery Co., Rio de Janeiro, Brazil"
12. ☒ COMMERCIAL INVOICE in duplicate
13. ☐ CERTIFIED INVOICE, IN TRIPLICATE, FOR CUSTOMS PURPOSES
14. ☒ MARINE INSURANCE POLICY OR CERTIFICATE in duplicate including war risks, made out to order of shipper and blank endorsed
15. ☐ OTHER DOCUMENTS First and Fifth Vias of Brazilian Consular Invoice
16. INSURANCE TO BE EFFECTED BY Shipper
17. DRAFTS TO BE NEGOTIATED ON OR BEFORE November 5, 1957
18. SPECIAL INSTRUCTIONS

Brazilian Brewery Co.

(IN CASE OF INCORPORATED COMPANIES AND OTHER ORGANIZATIONS THIS FORM MUST BE SIGNED BY PROPERLY AUTHORIZED OFFICIALS)

PRINTED IN CANADA

APPLICATION FOR LETTER OF CREDIT

INSTRUCTIONS FOR COMPLETION OF APPLICATION

(The numbered paragraphs below refer to corresponding lines in application.)

1. A revocable credit must be addressed to a bank and may be modified or cancelled by duly notifying the addressee. Drawings negotiated before addressee's receipt of cancellation notice must be honoured. An irrevocable credit can only be cancelled or modified with the consent of all parties thereto. Indicate which is required.
2. Give full name and address (including street address) of beneficiary.
3. Insert name of buyer, i.e. name of applicant unless the applicant is acting for another party.
4. Insert the maximum amount to be made available under the credit. If this amount cannot be definitely established and you wish to allow tolerance, state 5% more or less, 10% more or less, or as the case may be.
5. Indicate the term of the drafts or bills of exchange to be drawn under the credit. This may be sight; 30, 60, or 90 days' sight; etc., depending on the terms of the underlying contract.
6. Indicate the percentage of the invoice cost of the merchandise up to which the beneficiary is entitled to draw, usually 100%.
7. Insert a description of the goods preferably omitting details as to quality, grade, price, etc., which details should be covered by the contract between the buyer and seller. Indicate whether shipment is C.I.F., C. & F. F.O.B., etc. (named point).
8. From — port of shipment. To — port of destination. Or, where shipment is by railroad, point of loading and unloading.
9. Indicate the last date for shipment. If shipment is required within a specified period, delete "not later than" and insert the specified period, i.e., "during the month of July", "during the period August 15th to September 15th", or as the case may be.
10. Indicate whether *ocean, on board ocean, through or railroad* bill of lading required. If *on board ocean* ladings are specified, there is less chance of shipment being delayed.
11. Bills of lading should be drawn to the order of The Royal Bank of Canada and marked "Notify..... (purchaser)", provided that this manner of consignment does not conflict with customs regulations.
12. A commercial invoice should always be specified as this document is the basis for determining the value of the shipment. State how many copies required.
13. Certified invoices in triplicate are required if goods are to be cleared through Canadian customs. In other countries specify if special customs' invoices are required.
14. For overseas shipments, marine and war risk insurance is required. State if additional risks (apart from ordinary marine hazards) are to be covered such as theft, pilferage, breakage, hook, etc. If the applicant is placing the insurance, leave this line blank.
15. List individually any other documents required, stating number of copies. Depending on the merchandise involved, additional documents such as inspection certificate, certificate of analysis, etc., may be required. Indicate by whom the required certificates may be issued. Certificate of origin is required by the customs of some countries.
16. Stipulate "shippers" unless buyer is covering through his own floater policy in which case state "ourselves".
17. Insert expiry date for negotiation of drafts at place of domicile of beneficiary, unless otherwise desired. The expiry date should be the same as the last date for shipment (see 9 above) or two or three days later for convenience of shipper.
18. Indicate here instructions in regard to disposition of documents in cases where it is necessary to receive a set of documents by air mail for customs purposes.

LETTER OF CREDIT INSTRUCTIONS, ETC.

NON-NEGOTIABLE COPY

IRREVOCABLE COMMERCIAL LETTER OF CREDIT

LC-318 2 (12-41) PRINTED IN CANADA

THE ROYAL BANK OF CANADA

No. - 000 -

Rio de Janeiro, Brazil October 1, 1957

To Royal Malting Company, Limited,
Toronto,
Ontario

We hereby authorize you to value on THE ROYAL BANK OF CANADA, NEW YORK, N. Y.

for account of Brazilian Brewery Co., Rio de Janeiro, Brazil up to an aggregate amount of Forty Thousand XX/100 United States Dollars ($40,000.00 U.S.)

available by your drafts at 90 Days Sight for 100 % of invoice value of 250 Metric Tons MALT packed in Jute Bags at $160.00 U.S. per metric ton CIF Rio de Janeiro per "MORMACSTAR" Partial shipments are not permitted.

shipped from Montreal, P.Q. to Rio de Janeiro, Brazil

The shipment must be completed on or before October 31, 1957 and the drafts are to be accompanied by the following documents:

Complete set of Clean On Board Bills of Lading drawn to order of Shipper, blank endorsed marked "Notify Brazilian Brewery Co., Rio de Janeiro, Brazil".
and other documents as follows: Commercial Invoice in duplicate.
First and Fifth Vias Brazilian Consular Invoice. Marine Insurance Policy or Certificate in duplicate including war risks made out to order of shipper and blank endorsed

which must be delivered to the bank or bankers negotiating the drafts, who shall forward one signed Bill of Lading with a duplicate of the invoice and the following other documents: First and Fifth Vias of Brazilian Consular Invoice

direct to THE ROYAL BANK OF CANADA, RIO DE JANEIRO, BRAZIL

attaching to the draft their certificate to that effect with the remaining documents.

Insurance to be effected by Shippers

The drafts drawn under this Credit are to be endorsed hereon and shall state on their face that they are drawn under The Royal Bank of Canada---RIO DE JANEIRO, BRAZIL Branch Letter of Credit No. - 000 - dated October 1, 1957 -

We hereby agree with the drawers, endorsers and bona fide holders of the bills drawn in compliance with the terms of this Credit that the bills shall be duly honored on presentation at the office of THE ROYAL BANK OF CANADA, NEW YORK, N. Y.

if drawn and negotiated on or before November 5, 1957 -

(Signature)
Accountant

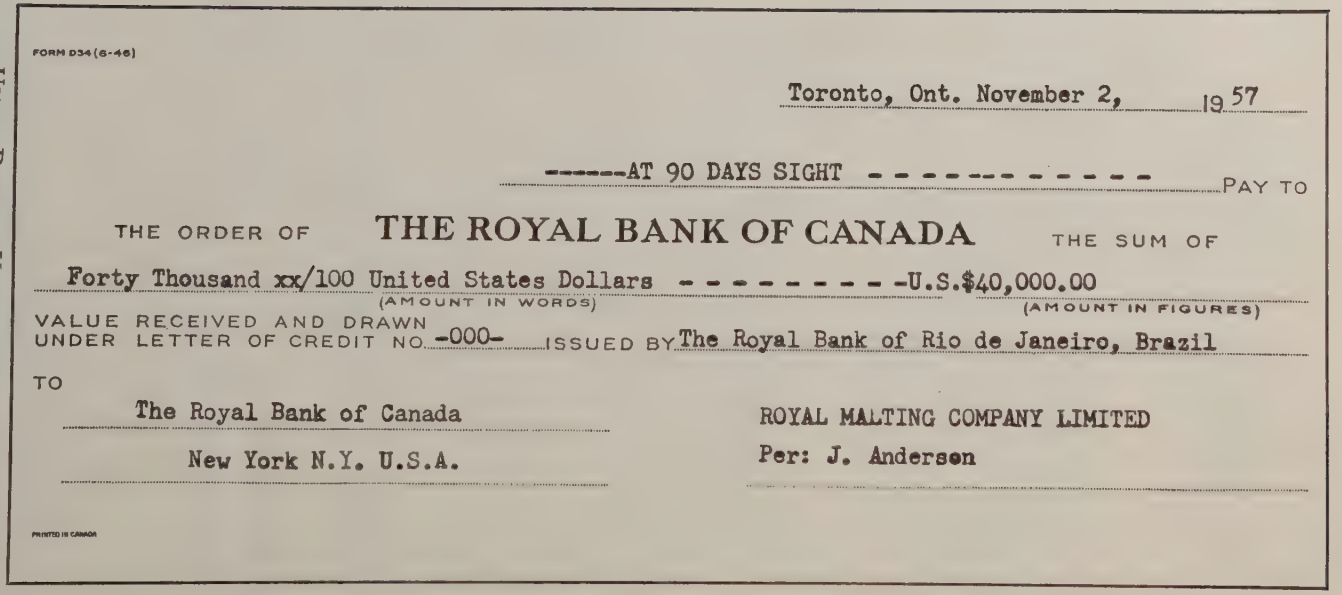
(Signature)
Manager

LETTER OF CREDIT

DRAFTS NEGOTIATED OR ACCEPTED			
DATE	BY WHOM	AMOUNT	BALANCE

RECORD OF DRAFTS NEGOTIATED OR ACCEPTED ON REVERSE OF LETTER OF CREDIT

USANCE DRAWING UNDER A LETTER OF CREDIT



FORM D34 (6-46)

Toronto, Ont. November 2, 1957

------AT 90 DAYS SIGHT - - - - - - - - - - - - PAY TO

THE ORDER OF **THE ROYAL BANK OF CANADA** THE SUM OF

Forty Thousand xx/100 United States Dollars - - - - - - - - - -U.S.$40,000.00
(AMOUNT IN WORDS) (AMOUNT IN FIGURES)

VALUE RECEIVED AND DRAWN
UNDER LETTER OF CREDIT NO. -000- ISSUED BY The Royal Bank of Rio de Janeiro, Brazil

TO

The Royal Bank of Canada
New York N.Y. U.S.A.

ROYAL MALTING COMPANY LIMITED
Per: J. Andersen

PRINTED IN CANADA

ORIGINAL

$ 44,000.00 U. S. **CERTIFICATE OF INSURANCE** No. M 664626

The Marine Insurance Company, Limited

OF LONDON
ESTABLISHED 1836

HEAD OFFICE: 159 Leadenhall St., London and Lancashire House, London, E. C. 3, England

CHUBB & SON, Managers, 90 John Street, New York 7, N. Y.

MONTREAL, QUEBEC October 25, 1957

This is to Certify, *That this Company has insured under Policy No.* MO 3125

for Royal Malting Company, Limited, Toronto, Ontario

the sum of Forty-four Thousand XX/100 United States - *Dollars.*

on 5,000 Jute Bags of Malt

valued at U.S.$44,000.00 *shipped on board of the* MORMACSTAR (B/L dated Oct.31/57)

at and from Toronto, Ontario via Montreal, P. Q.

to Rio de Janeiro, Brazil

It is understood and agreed that in case of loss the same is payable to the order of

Assured

on surrender of this certificate, which conveys the right of collecting any such loss as fully as if the property were covered by a special policy direct to the holder hereof, and free from any liability for unpaid premiums. This certificate is subject to all the terms of the open policy, provided, however, that the rights of a bona fide holder of this certificate for value shall not be prejudiced by any terms of the open policy which are in conflict with the terms of this certificate.

WARRANTED free of capture, seizure, arrest, restraint or detainment, and the consequences thereof or of any attempt thereat; also from the consequences of war or not; but this warranty shall not exclude collision, contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather or fire unless caused directly (and independently of the nature of the voyage or service which the vessel concerned or, in the case of a collision, any other vessel involved therein, is performing) by a hostile act by or against a belligerent power; and for the purpose of this warranty "power" includes any authority maintaining naval, military or air forces in association with a power.

FURTHER WARRANTED free from the consequences of civil war, revolution, rebellion, insurrection, or civil strife arising therefrom or piracy.

Warranted free of loss or damage caused by or resulting from strikes, lockouts, labor disturbances, riots, civil commotions or the acts of any person or persons taking part in any such occurrence or disorder.

It is Hereby Agreed, that any loss or claim under this Certificate shall be paid at the offices of the Company, in London, or at the office of the Company at New York, or at the Agency of the Company at port or place of destination, or, if the Company is not represented at port or place of destination, at the nearest Agents in contact those specified in the list on back hereof.

Claims to be adjusted according to the usages of Lloyds, subject to the conditions of the Policy and Contract of Insurance

NOTICE—To conform with the Revenue Laws of Great Britain, in order to collect a claim under this Certificate, it must be stamped within ten days after its receipt in the United Kingdom.

Original policy which this certificate is issued to stand in lieu of.

IMPORTANT—In Case of Loss or Damage Please Follow Instructions on the Reverse Side of this Certificate.

SPECIAL CONDITIONS	Marks and Numbers
	BB Co. Rio

ON DECK—Merchandise and/or goods shipped on deck which must be so specified in this certificate are insured.—Free of particular average unless caused by the vessel being stranded, sunk, burnt, on fire, or in collision, but including jettison and/or washing overboard, irrespective of percentage.

Where the words "including M. E. C." are typed in the space below at the time the certificate is issued, this insurance is subject to the American Institute Marine Extension Clauses (April, 1943).	Where the words "including Strike Risks" are typed in the space below at the time the certificate is issued, this insurance is subject to the Institute Strike Clauses 19/5/44.	Where the words "including War Risk" are typed in the space below at the time the Certificate is issued, this insurance is subject to the Institute War Clauses 1/2/51.
M.E.C.	"Including Strike Risks"	"Including War Risk".

1. This insurance attaches from the time the goods leave the Warehouse and/or Store at the place named in this certificate or special policy for the commencement of the transit and continues during the ordinary course of transit, including customary transhipment if any, until the goods are discharged overside from the overseas vessel at the final port. Thereafter the insurance continues whilst the goods are in transit and/or awaiting transit until delivered to final warehouse at the destination named in this certificate or special policy or until the expiry of 15 days (or 30 days if the destination to which the goods are insured is outside the limits of the port) whichever shall first occur. The time limits referred to above to be reckoned from midnight of the day on which the discharge overside of the goods hereby insured from the overseas vessel is completed. Held covered at a premium to be arranged in the event of transhipment, if any, other than as above and/or in the event of delay in excess of the above time limits arising from circumstances beyond the control of the Assured.

It is necessary for the Assured to give prompt notice to these Assurers when they become aware of an event for which they are "held covered" under this policy and the right to such cover is dependent on compliance with this obligation.

2. Including transit by craft, and/or lighter to and from the vessel. Each craft and/or lighter to be deemed a separate insurance. The Assured are not to be prejudiced by any agreement exempting lightermen from liability.

3. This insurance shall not be vitiated by any unintentional error in description of vessel, voyage or interest, or by deviation, ever carriage, change of voyage, transhipment or any other interruption of the ordinary course of transit, from causes beyond the control of the Assured. It is agreed, however, that any such error, deviation or other occurrence mentioned above shall be reported to this Company as soon as known to the Assured, and additional premium paid if required.

Notwithstanding any average warranty contained herein, these Assurers agreed to pay any landing, warehousing, forwarding and special charges for which this policy in the absence of such warranty would be liable. Also to pay the insured value of any package or package which may be totally lost in loading, transhipment or discharge.

4. In case of damage affecting labels, capsules or wrappers, these Assurers, if liable therefor under the terms of this policy, shall not be liable for more than an amount sufficient to pay the cost of new labels, capsules or wrappers, and the cost of reconditioning the goods, but in no event shall these Assurers be liable for more than the insured value of the damaged merchandise.

5. When the property insured under this policy includes a machine consisting when complete for sale or use of several parts, then in case of loss or damage covered by this insurance to any part of such machine, these Assurers shall be liable only for the proportion of the insured value of the part lost or damaged, or at the Assured's option, for the cost and expense, including labor and forwarding charges, of replacing or repairing the lost or damaged part but in no event shall these Assurers be liable for more than the insured value of the complete machine.

7. General Average and Salvage Charges payable according to United States laws and usages and/or as per Foreign Statement and/or as per York-Antwerp Rules (as prescribed in whole or in part) if in accordance with the Contract of Affreightment.

8. Including the risk of explosion, howsoever or whensoever occurring during the currency of this insurance, unless excluded by the F. C. & S. Warranty or the S. R. & C. C. Warranty set forth herein.

9. Where this insurance by its terms covers while on docks, wharves or elsewhere on shore, and/or during land transportation, it shall include the risks of collision, derailment, overturning or other accident to the conveyance, fire, lightning, sprinkler leakage, cyclones, hurricanes, earthquakes, floods (meaning the rising of navigable waters) and/or collapse or subsidence of docks or wharves, even though the insurance be otherwise F.P.A.

10. The Assured are not to be prejudiced by the presence of the negligence clause and/or latent defect clause in the Bills of Lading and/or Charter Party. The said clauses of the contract between the Assured and these Assurers is hereby admitted and the wrongful act or misconduct of the Assured or of their servants in relation to decking the refinery or shipment thereof if the loss in the absence of such wrongful act or misconduct would have been a loss recoverable on the policy. With leave to sail with or without pilots, and to tow and assist vessels or craft in all situations, and to be towed.

11. This insurance is also specially to cover any loss of or damage to the interest insured hereunder, through the bursting of boilers, breakage of shafts or through any latent defect in the machinery, hull or appurtenances, or from faults or errors in the navigation and/or management of the vessel by the master, mariners, mates, engineers or pilots.

12. Warranted free of claim for loss of market or for loss, damage or deterioration arising from delay, whether caused by a peril insured against or otherwise, unless expressly assumed in writing hereon.

13. Where goods are shipped under a Bill of Lading containing the so-called "Both to Blame Collision" Clause, these Assurers agree so to all losses covered by this insurance, to indemnify the Assured for this policy's proportion of any amount that exceeding the amount insured which the Assured may be legally bound to pay to the shipowners under such clause. In the event that such liability is asserted the Assured agree to notify these Assurers who shall have the right at their own cost and expense to defend the Assured against such claim.

14. No recovery for a Constructive Total Loss shall be had hereunder unless the property insured is reasonably abandoned on account of its actual total loss appearing to be unavoidable, or because it cannot be preserved from actual total loss without an expenditure which would exceed its value when the expenditure had been incurred.

16. Warranted that this insurance shall not inure, directly or indirectly, to the benefit of any carrier or bailee.

Not valid unless countersigned by LUKIS, STEWART & CO., LTD.

Countersigned, (Signature)

Chubb & Son *Managers.*

CERTIFICATE OF INSURANCE

INSTRUCTIONS TO CLAIMANTS

Any loss or damage which may happen to the property insured under this certificate shall be reported as soon as the goods are landed or the loss is known or expected, to the agent of the Insurers named at the port of discharge or disaster (see list below). If there be no such agent at or near such port, such notice shall be given to an accredited representative of the Board of Underwriters of New York. In case of loss or damage, produce this certificate for said agent's or representative's inspection, and request him to hold a survey and issue a certificate stating the cause and extent of the loss or damage. If there be no agent of the Insurers at the port of discharge or disaster, nor a representative of the Board of Underwriters of New York, certificate of survey should be obtained from Lloyds agent at destination.

After the foregoing formalities have been complied with, the complete documents (survey report, policy, invoice, bill of lading, letter to carrier and latter's reply) should be sent to the Insurer's agents (named below) to enable them to decide as to the liability of the Insurers.

IMPORTANT NOTICE

When cargo is received from the carrier in a damaged condition, or in a case of loss by theft, pilferage, non-delivery or negligence (if covered by this insurance) in order to save for yourselves or your underwriters, any rights which you may have against the carrier, it is necessary that a notation of the loss or damage be made on the receipt taken from the carrier. Failure to have such notation made by the carrier as soon as the actual loss or damage is known and a copy thereof and a reply thereto must accompany any claim presented under this insurance certificate, in addition to the usual certificate of loss issued by the Underwriters Agent. Filing claim against carrier will not affect your rights under your insurance certificate.

AGENCIES OF THE MARINE INSURANCE COMPANY, LIMITED, WHERE CLAIMS MAY BE PRESENTED FOR PAYMENT

EUROPE

LIVERPOOL ..... Brodrick, Leitch & Kendall, Ltd., R. 18, Liverpool & London & Globe Chambers, 8 James' Square, Manchester
MANCHESTER (Texas) Blanton & Co., 81 Mosley St., Manchester
BRADFORD (Texas) ..... Jones & Lees, Ltd., 31, Piece Hall Yard, Bradford
GLASGOW ..... John B. Marshall, Royal Exchange Buildings
DUNDEE ..... James Soper & Co., India Buildings, 3 Victoria Rd.
LEITH ..... R. C. Steel & Son, Commercial Buildings, 6 Constitution St.
MALMO ..... SWEDEN
James Sheriff & Son, A.B., Kronprinsen 4
Trieste & Fiume, Ltd.
Levissima Soda Breweries, Mineral Water Manufacturers
NORWAY
Wedekes Handelsbureau A/S Fridtjofsgt. 7
OSLO .....
DENMARK
COPENHAGEN .....
Herbitz & Son Successors, Amaliegade 20
Carl Ott, D.K., Box 10, Nicolai 1, Copenhagen
HOLLAND
AMSTERDAM .....
ROTTERDAM .....
ANTWERP .....
BELGIUM
John Pickard & Co., S.A., Place Verte 24/25
FRANCE
PARIS ..... Robert Letellier & Edouard Ducroy, Rue Vivienne 40
MARSEILLES .....
Le Comptoir Assicuratore Commerciale, 4 Cannebière
Assicuratore S.A. Comm. di Transporti Internazionali, 4 Cannebière
PYRENEES .....
Antoine S.A. Comm. di Transporti Internazionali, 4 Cannebière
SPAIN
CORUNA .....
GIBRALTAR .....
BARCELONA .....
Robert Jones Frazer, Ltd., Edificio Pastor
Ernesto Hunter & Co., Edificio Pastor
Macandrews & Co., Ltd., Calle Cortes 42
PORTUGAL
LISBON .....
OPORTO .....
MADEIRA .....
James Rennie & Co., Rua Do Commercio 49
Thomas Hunter & Co., Rua Do Commercio 49
Reis & Cia., Rua Do Commercio 49
ITALY
NAPLES .....
VENICE .....
TRIESTE .....
Capt. H. J. Quinn, D.S.O., R.N.R., 41, Strada Nuova
MALTA .....
AFRICA
EGYPT
ALEXANDRIA ..... A. J. RICHES & CO. (Lane & Co.)
SUEZ .....
PORT SAID ..... The Port Said & Suez Coal Co. (1919) Ltd.
Mary H. Gresham Bissett, P.O. Box 1281
Macandrews & Co., Ltd., Calle Cortes 42
Lazzaro Brothers & Co., Ltd., Calle Cortes 42
Macandrews & Co., Ltd., Calle Cortes 42
Macandrews & Co., Ltd., Calle Zebedeo 3
MOROCCO
Mendoza Hermanos (Importadores Para Marruecos), Apartado 14
TANGIER (Morocco) ..... Mendoza Hermanos (Importadores Para Marruecos), Apartado 14
CASABLANCA .....
TUNIS .....
ITALIAN PORTS
Bonnici Brothers, San Gwann (Casella Postale 147)
Ernesto Hunter & Co., Edificio Pastor
Reis & Cia., Rua Do Commercio 49
Mary H. Gresham Bissett, P.O. Box 1281
Capt. H. J. Quinn, D.S.O., R.N.R., 41, Strada Nuova
Valletta
AFRICA
EGYPT
ALEXANDRIA ..... A. J. RICHES & CO. (Lane & Co.)
SUEZ .....
PORT SAID ..... The Port Said & Suez Coal Co. (1919) Ltd.
Gellatly, Hankey & Co. (Sudan), Ltd., 37, Gordon Memorial College, P.O. Box 118
Gellatly, Hankey & Co. (Sudan), Ltd., P.O. Box 118
ARABIA
ADEN .....
Gellatly, Hankey & Co. (Sudan), Ltd., P.O. Box 118
Capt. Arthur Messenger, c/o G. Geddes, Steamer Point
EAST AFRICA
MOMBASA .....
ZANZIBAR .....
DAR ES SALAAM .....
Smith, Mackenzie & Co., Ltd., P.O. Box 188
Smith, Mackenzie & Co., Ltd., P.O. Box 188
Smith, Mackenzie & Co., Ltd., P.O. Box 188
Zanzibar
Lourenco Marques (See Portuguese East Africa)
Beira (See Portuguese East Africa)
Mozambique (See Portuguese East Africa)

1/1/51

INSTITUTE CARGO CLAUSES (ALL RISKS.)

1. This insurance attaches from the time the goods leave the Warehouse and/or Store at the place named in the policy for the commencement of the transit and continues during the ordinary course of transit, including customary transhipment if any, until the goods are discharged overside from the overseas vessel at the final port. Thereafter the insurance continues whilst the goods are in transit and/or waiting transit until delivered to final warehouse at the destination named in the policy or until the expiry of 15 days (or 30 days if the destination to which the goods are insured is outside the limits of the port) whichever shall first occur. The time limits referred to above to be reckoned from midnight of the day on which the discharge overside of the goods hereby insured from the overseas vessel is completed. Held covered at a premium to be arranged in the event of transhipment, if any, other than as above and/or in the event of delay in excess of the above time limits arising from circumstances beyond the control of the assured. — Warehouse to warehouse clause.

2. Including transit by craft, raft and/or lighter to and from the vessel. Each craft, raft, and/or lighter to be deemed a separate insurance. The assured are not to be prejudiced by any agreement exempting lightermen from liability. — Craft, &c., clause.

3. Held covered at a premium to be arranged in case of deviation or change of voyage, or other variation of the adventure by reason of the exercise of any liberty granted to the shipowner or charterer under the contract of affreightment, or of any omission or error in the description of the interest vessel or voyage. — Deviation clause.

4. In the event of the exercise of any liberty granted to the shipowner or charterer under the contract of affreightment whereby such contract is terminated at a port or place other than the destination named therein, the goods are held covered in terms of the policy at a premium to be arranged until sold and delivered at such port or place, or notice be given to Underwriters to terminate the policy whichever first occurs; or, if the goods be forwarded to the destination named herein or to any other destination, until arrival at destination (subject to the provisions of clause 1 as to the period covered after discharge overside from the overseas vessel at final port): provided always that no liability shall attach to this policy for loss or damage occurring after the termination of such contract of affreightment and proximately caused by delay or inherent vice or nature of the subject matter insured. — Liberties clause. Termination of contract of affreightment.

5. This insurance is against all risks of loss of or damage to the subject-matter insured but shall in no case be deemed to extend to cover loss damage or expense proximately caused by delay or inherent vice or nature of the subject-matter insured. — All Risks clause.

6. Claims for loss or damage within the terms of these clauses shall be payable irrespective of percentage.

7. General average and salvage charges payable according to Foreign Statement or per York-Antwerp Rules if in accordance with the contract of affreightment. — G/A clause.

8. The assured are not to be prejudiced by the presence of the negligence clause and/or latent defect clause in the Bills of Lading and/or Charter Party. The seaworthiness of the vessel as between the assured and the Underwriters is hereby admitted and the wrongful act or misconduct of the shipowner or his servants causing a loss is not to defeat the recovery by an innocent assured if the loss in the absence of such wrongful act or misconduct would have been a loss recoverable on the policy. With leave to sail with or without pilots, and to tow and assist vessels or craft in all situations, and to be towed. — Bill of Lading, &c. clause.

9. Warranted free from liability for loss of or damage to the goods whilst in the custody or care of any carrier or other bailee who may be liable for such loss or damage but only to the extent of such carrier's or bailee's liability. — Bailee clause.

Warranted free of any claim in respect of goods shipped under a Bill of Lading or contract of carriage stipulating that the carrier or other bailee shall have the benefit of any insurance on such goods, but this warranty shall apply only to claims for which the carrier or other bailee is liable under the Bill of Lading or contract of carriage.

Notwithstanding the warranties contained in this clause it is agreed that in the event of loss of or damage to the goods by a peril or perils insured against by this policy for which the carrier or bailee denies or fails to meet his liability the Underwriters shall advance to the assured as a loan without interest a sum equal to the amount they would have been liable to pay under this policy but for the above warranties the repayment thereof to be conditional upon and only to the extent of any recovery which the assured may receive from the carrier or bailee.

It is further agreed that the assured shall with all diligence bring and prosecute under the direction and control of the Underwriters such suit or other proceedings to enforce the liability of the carrier or bailee as the Underwriters shall require and the Underwriters agree to pay such proportion of the costs and expenses of any such suit or proceedings as attach to the amount advanced under the policy.

10. Warranted free of capture, seizure, arrest, restraint or detainment, and the consequences thereof or of any attempt thereat; also from the consequences of hostilities or warlike operations, whether there be a declaration of war or not; but this warranty shall not exclude collision, contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather or fire unless caused directly (and independently of the nature of the voyage or service which the vessel concerned or, in the case of a collision, any other vessel involved therein, is performing) by a hostile act by or against a belligerent power; and for the purpose of this warranty "power" includes any authority maintaining naval, military or air forces in association with a power. — F. C. & S. clause.

Further warranted free from the consequences of civil war, revolution, rebellion, insurrection, or civil strife arising therefrom, or piracy.

Should Clause No. 10 be deleted, the current Institute War Clauses relevant to the particular form of transit covered by this insurance shall be deemed to form part of this contract.

11. Warranted free of loss or damage caused by strikers locked-out workmen or persons taking part in labour disturbances riots or civil commotion. — Strikes, riots and civil commotions clause.

Should Clause No. 11 be deleted, the current Institute Strike Clauses shall be deemed to form part of this contract.

12. Agreed that this policy is extended to indemnify the Assured against such proportion of liability under the Bill of Lading "Both to Blame Collision" Clause as is in respect of a loss recoverable under the policy. — "Both to Blame Collision" Clause.

In the event of any claim by shipowners under the said clause the Assured agree to notify the Underwriters who shall have the right, at their own cost and expense, to defend the Assured against such claim.

NOTE—It is necessary for the assured to give prompt notice to Underwriters when they become aware of an event for which they are "held covered" under this policy and the right to such cover is dependent on compliance with this obligation.

CL. 90. For Sale by JOSEPH LAZARD, 406 Broome St., New York 13, N. Y.
Printed in U. S. A.

CERTIFICATE OF INSURANCE (*continued*)

1/2/51.

INSTITUTE WAR CLAUSES.

1. This Policy covers :—
   (a) the risks excluded from the Standard Form of English Marine Policy by the clause :—
   "Warranted free of capture, seizure, arrest, restraint or detainment, and the consequences thereof or of any attempt thereat; also from the consequences of hostilities or warlike operations, whether there be a declaration of war or not; but this warranty shall not exclude collision, contact with any fixed or floating object (other than a mine or torpedo), stranding, heavy weather or fire unless caused directly (and independently of the nature of the voyage or service which the vessel concerned or, in the case of a collision, any other vessel involved therein, is performing) by a hostile act by or against a belligerent power; and for the purpose of this warranty 'power' includes any authority maintaining naval, military or air forces in association with a power.
   Further warranted free from the consequences of civil war, revolution, rebellion, insurrection, or civil strife arising therefrom or piracy."
   (b) loss of or damage to the interest hereby insured caused by :—
   (1) hostilities, warlike operations, civil war, revolution, rebellion, insurrection or civil strife arising therefrom
   (2) mines, torpedoes, bombs or other engines of war
   but excluding loss or damage covered by the Standard Form of English Marine Policy with the Free of Capture &c. Clause (as quoted in 1 (a)) inserted therein.

2. **Notwithstanding the foregoing :—**
   (a) the insurance against the said risks, except the risks of mines and derelict torpedoes, floating or submerged, referred to in (b) below, shall not attach to the interest hereby insured or to any part thereof
   (i) prior to being on board an oversea vessel,
   (For the purpose of this Clause 2 an oversea vessel shall be deemed to mean a vessel carrying the interest from one port or place to another where such voyage involves a sea passage by that vessel)
   (ii) after being discharged overside from an oversea vessel at the final port of discharge
   or
   after the expiry of 15 days counting from midnight of the day of arrival of the oversea vessel at the final port of discharge, whichever shall first occur,
   (iii) after expiry of 15 days from mid-night of the day of arrival of the oversea vessel at an intermediate port or place to discharge the interest for on-carriage from that or any other port or place by another oversea vessel, but shall re-attach as the interest is loaded on the on-carrying oversea vessel. During the said period of 15 days the insurance remains in force whether the interest is awaiting transit or in transit between the oversea vessels.
   (b) the insurance against the risks of mines and derelict torpedoes, floating or submerged, attaches as the interest hereby insured is first loaded on the vessel or craft after such interest leaves the warehouse at the place named in the policy for the commencement of the transit and ceases to attach as the interest is discharged overside finally from the vessel or craft prior to delivery to warehouse at the destination named in the policy (or a substituted destination as provided in Clause 6).
   (c) this policy is warranted free of any claim based upon loss of, or frustration of, the insured voyage or adventure caused by arrests restraints or detainments of Kings Princes Peoples Usurpers or persons attempting to usurp power.
   If the contract of affreightment is terminated at a port or place other than the destination named therein such port or place shall be deemed the final port of discharge for the purpose of this Clause.
   If anything contained in this policy shall be inconsistent with this Clause 2 it shall to the extent of such inconsistency be null and void.

3. Warranted free of loss or damage proximately caused by delay inherent vice or loss of market, or of any claim for expenses arising from delay except such expenses as would be recoverable in principle in English law and practice under York-Antwerp Rules 1950.

4. General average and salvage charges payable (subject to the terms of these clauses) according to Foreign Statement or York-Antwerp Rules if in accordance with the contract of affreightment.

5. Claims for loss or damage within the terms of these clauses shall be payable without reference to average conditions.

6. Held covered (subject to the terms of these clauses) at a premium to be arranged in case of deviation or change of voyage, or other variation of the adventure by reason of the exercise of any liberty granted to the Shipowner or Charterer under the contract of affreightment, or of any omission or error in the description of the interest vessel or voyage.

7. **It is a condition of this insurance that the Assured shall act with reasonable despatch in all circumstances within their control.**

CL. 27. For Sale by JOSEPH LAZARD, 434 Broome St., New York 13, N. Y. Printed in U. S. A.

CERTIFICATE OF INSURANCE (*continued*)

1/2/56

INSTITUTE STRIKE CLAUSES

(EXTENDED COVER)

1. This Policy covers :—

(a) the risks excluded from the Standard Form of English Marine Policy by the clause :— "Warranted free of loss or damage caused by strikers locked-out workmen or persons taking part in labour disturbances riots or civil commotions."

(b) theft or pilferage by, or other loss of or damage to the property hereby insured caused by, strikers locked-out workmen or persons taking part in labour disturbances riots or civil commotions.

(c) destruction of or damage to the property hereby insured caused by persons acting maliciously.

The above-mentioned clauses shall not cover theft pilferage loss or damage caused by hostilities warlike operations civil war, or by revolution rebellion insurrection or civil strife arising therefrom.

Warranted free of loss or damage proximately caused by delay inherent vice or loss of market, or of any claim for expenses arising from delay except such expenses as would be recoverable in principle in English law and practice under York-Antwerp Rules 1950.

General average and salvage charges payable (subject to the terms of these clauses) according to Foreign Statement or York-Antwerp Rules if in accordance with the contract of affreightment.

Claims for loss or damage within the terms of these clauses shall be payable without reference to conditions of average.

2. This insurance attaches from the time the goods leave the warehouse at the place named in the policy for the commencement of the transit and continues until the goods are delivered to the Consignees' or other final warehouse at the destination named in the policy, provided that in no case shall the period of cover after completion of discharge overside of the goods from the oversea vessel at the final port of discharge extend beyond 60 days.

Within the currency of this insurance the goods are covered during

(i) deviation, delay beyond the control of the Assured, forced discharge, re-shipment and transhipment.

(ii) any other variation of the adventure arising from the exercise of a liberty granted to the shipowner or charterer under the contract of affreightment.

The provisions of this clause shall be subject to those of Clauses 3 and 4 hereunder.

3. If owing to circumstances beyond the control of the Assured either the contract of affreightment is terminated at a port or place other than the destination named therein or the adventure is otherwise terminated before delivery of the goods into Consignees' or other final warehouse at the destination named in the policy, then, provided notice is given immediately after receipt of advices and subject to an additional premium if required, this insurance shall remain in force until the goods are sold and delivered at such port or place or, if the goods are forwarded to the destination named in the policy or to any other destination, until the goods have arrived at Consignees' or other final warehouse at such destination, but subject to the limitation of period after discharge as provided for in Clause 2 above.

4. Notwithstanding the provisions of Clauses 2 and 3 above if the goods are sold (the sale not being one within the provisions of Clause 3) while this insurance is still in force but before expiry of 15 days from midnight of the day on which the goods are discharged overside from the oversea vessel at the final port of discharge and following the sale the goods are to be forwarded to a destination other than that to which they are insured by this policy, this insurance shall remain in force only until the expiry of the said period of 15 days at the final port of discharge or until the goods commence transit at that port at the risk of the buyer, whichever first occurs.

If such sale takes place after expiry of the aforementioned period of 15 days but while this insurance is still in force the insurance shall cease as from the time of sale.

5. Held covered at a premium to be arranged in case of change of voyage or of any omission or error in the description of the interest vessel or voyage.

6. It is a condition of this insurance that the Assured shall act with reasonable despatch in all circumstances within their control.

NOTE.—It is necessary for the Assured when they become aware of an event which is "held covered" under this policy to give prompt notice to Underwriters and the right to such cover is dependent upon compliance with this obligation.

CL. 109. *Sold by Witherby & Co. Ltd., London, E.C.4.* PRINTED IN ENGLAND.

FATURA CONSULAR BRASILEIRA

(Brazilian Consular Invoice)

CONSULADO GERAL EM MONTREAL

(Consulate General at Montreal)

(p)

VIA

(b) Mercadorias embarcadas no pôrto de Montreal, Canada no navio a vapor, a motor ou à vela MORMACSTAR de nacionalidade AMERICAN (s) N.

(Goods shipped at the port of) (on steamship, motorship or sailboat) (of nationality)

a partir, aproximadamente, em 31st de October de 1957 as quaes se destinam ao pôrto de RIO DE JANEIRO do Brasil, com opção

(to sail, about,) (day) (of) (month) (of) (which are destined to the port) (in Brazil, with option)

ou em trânsito pelo pôrto de ... e são consignadas aos Srs. BRAZILIAN BREWERY CO. de RIO DE JANEIRO

(or in transit through the port of) (and are consigned to Messrs.) (of)

MARCA DOS VOLUMES (Marks) (c)				DISCRIMINAÇÃO DAS MERCADORIAS (Description of the goods) (h)	PARA USO OFICIAL (For Official use) (q)	PÊSO BRUTO DOS VOLUMES (Gross weight of the packages) (j)	PÊSO DAS MERCADORIAS (Weight of the goods)				QUANTIDADE DA MERCADORIA (Quantity of goods) (l)	VALOR DE CADA MERCADORIA EM DÓLAR (Value of each class of merchandise in dollars) (U.S. Funds) (m)	PAÍS DE ORIGEM (Country of origin) (n)	PAÍS DE PROCEDÊNCIA (Country from which sent) (o)
VOLUMES (Packages)							LEGAL (Legal) (j)		LÍQUIDO REAL (Actual net) (k)					
Num dos Volumes Number of the packages (d)	Num. da Referencia (Reference No.) (e)	Quantidade (Quantity) (f)	Espécie (Kind) (g)			KILOG. (Kilos)	KILOG. (Kilos)	GRAM (Grams)	KILOG. (Kilos)	GRAM (Grams)				
1&up	B B Co. Rio	5000	Jute Bags	MALT		255,000	255,000		250,000		Metric Tons	$25,000.00	Canada	Canada
				SOMA (Addition)								$25,000.00		
				FRETES E OUTRAS DESPEZAS EM DÓLAR (Freight and other expenses in dollars U.S. Funds)		—	—	—	—	—		$15,000.00		
				TOTAL GERAL (General Total)		—	—	—	—	—		$40,000.00		

Declaração: Nós, abaixo assinados, afirmamos serem exatas todas as declarações contidas nesta fatura.

(We, the undersigned, affirm that all declarations made in this invoice are exact)

Montreal, 31st de October de 1957.

(day) (of) (month) (of)

Assinatura do exportador ou expedidor J. Anderson

(Signature of Exporter or Shipper)

Observações do Cônsul Geral.—

(Consul General's remarks)

Pagou Cr. $ ouro, ou $ Canadenses

(Paid) (Gold, or) (Canadian)

Visto. — Consulado Geral da Republica dos Estados Unidos do Brasil.

Montreal, 31st de October de 1957.

Assinatura do Cônsul Geral:

(VIDE INSTRUÇÕES NO VERSO) (See instructions on the reverse side)

INSTRUCÇÕES PARA O PREENCHIMENTO DA FATURA CONSULAR BRASILEIRA

(a) – A numeração, que compete exclusivamente ao Cônsul Geral, deve ser anual e seguidamente feita.

(b) – O exporta lor ou carregador deve preencher os claros desta alínea, riscando as palavras que não lhe aproveitarem. Ex.: Quando o embarque fôr feito em vapor, devem ser riscadas as palavras "a motor ou á vela"

(c) – Deverá ser reproduzida neste lugar a marca dos volumes das mercadorias consignadas na fatura.

(d) – Esta coluna deve ser preenchida com a numeração, de cada volume, a qual deve ser seguida, sempre que possivel. Ex. 100, 101, 102, etc.

(e) – Nesta coluna mencionará, facultativamente, o exportador o numero que, geralmente, se coloca no volume para se distinguir uma encomenda de outra.

(f)–(g) – Nestas colunas deverao ser mencionadas, guardando a devida ordem, a quantidade e a espécie de volumes, isto é, se são caixas, barris, barricas, etc.

(h) – O exportador deverá indicar, nesta coluna, as mercadorias com as denominações próprias, de acôrdo com a venda realizada e a correspondente fatura comercial, na conformidade do que dispõe o capitulo III do Regulamento de Faturas.

(i) – Nesta coluna o exportador indicará o pêso bruto total dos volumes, o que inclue o de todos os envoltorios externos ou internos.

(j) – Nesta coluna o exportador mencionará o pêso legal de cada mercadoria, que é o pêso nos envoltórios internos, inclusive cartões, cordas, garrafas, latas, papel e outros, em que vier a mercadoria acondicionada, com exceção das caixas de madeira tosca, da palha, palhões e serragens servindo de enchimento, e da folha de zinco e de ferro, revestindo internamente o envoltório externo.

(k) – Esta coluna deve ser preenchida com o pêso líquido real de cada mercadoria, isto é, o da mercadoria livre de todo e qualquer envoltório.

(l) – Esta coluna deve ser preenchida com a unidade sôbre que incidem os direitos, quando estes não recairem sobre o pêso. Ex.: duzia, milheiro, cento, metro cúbico, etc.

(m) – Nesta coluna será mencionado o valor, em dólar americano, de cada mercadoria referida na fatura, excluidas as despesas e o frete. Cada classe de mercadoria especificada na fatura deverá trazer a declaraçao do seu pêso e valor.

(n) – Esta coluna deve ser preenchida com o nome do país de produção da mercadoria, quando se tratar de matéria prima; e, com o nome daquele em que ela foi beneficiada, quando se tratar de produtos manufaturados.

(o) – Esta coluna deve ser preenchida com o nome do país onde foram adquiridas as mercadorias para serem exportadas para o Brasil.

(p)–(q) – Para uso exclusivo do Serviço de Estatistica Econômica e Financeira.

INSTRUCTIONS FOR FILLING OUT A BRAZILIAN CONSULAR INVOICE

(a) – The numbering, to be done exclusively by the Consul General, shall be yearly and in sequence.

(b) – The exporter or shipper shall fill in the blanks in this paragraph, crossing out the words which do not apply. Example: when a shipment is made by steamship, the words "motorship" or "sailboat" have to be crossed out.

(c) – A reproduction of the marks used on the packages covered by the invoice should be reproduced in this space.

(d) – This column to be filled in with the number of each packages, which must be in sequence, if possible. Ex.: 100, 101, 102, etc.

(e) – In this column indicate the reference number, which is generally marked on the packages to distinguish one consignment from another. Its use is not obligatory

(f)–(g) – In these columns state the quantity and kind of packages used, in the due order; that is, whether cases, barrels, bundles, etc.

(h) – The exporter shall describe in this colymn the goods by their proper denominations, in accordance with the sale made and the corresponding commercial invoice, in accordance with Chapter III. of the Regulation of Consular Invoices.

(i) – In this column the exporter shall state the total gross weight of the packages, including all the packing and wrapping, both external and internal.

(j) – In this column the exporter shall state the legal weight of each article, that is, including all the internal wrapping, including cartons, cord, bottles, cans, paper and others in which the goods are wrapped, with exception of boxes of coarse wood, straw and saw-dust, as well as the tin and iron plate which serves as lining for the external packing.

(k) – This column is to be used for the actual net weight of each article, that is, free of all and every wrapping.

(l) – This column is to be used for a declaration of the unit on which the duties are to be based, whenever the duties are not based on the weight. Examples: dozen, thousands, hundreds, cubic meter, etc.

(m) – In this column shall be stated the value, in dollars (U. S. currency), of the goods mentioned in each declaration in the invoice, freight and expenses excluded. Each class of goods covered by the invoice must be shown with its weight and value.

(n) – In this column is to be stated the name of the country where the goods are produced, in case of raw material; and the name of the country where they are manufactured, in case of manufactured goods.

(o) – In this column is to be stated the name of the country where the goods have been acquired for exportation to Brazil.

(p)–(q) – For exclusive use of the Department of Economic and Financial Statistics.

Printed in Canada by Customs & Commercial Printers — 1460 Bleury Street, Montreal — Tel. PLateau 5097

ROYAL MALTING COMPANY, LIMITED

TORONTO, CANADA

Date: October 25, 1957

Sold to Brazilian Brewery Co.

Shipped to Rio de Janeiro

Marks

B B Co.
Rio

Car No. Via S/S Mormacstar

Your Order No. 12 Our Order No. 74

Number of Bdls, Pcs.	Dimensions and Sizes	Weight	Price	Amount
5000	Jute Bags Malt	Approx.		
	Each Bag Gross	51 kilos (112 lbs)	250 tons Per Ton U.S.$160	$40,000 U.S.
	Tare	1 kilo (2 lbs)		
	Net	50 kilos (110 lbs)	CIF Rio de Janeiro	

Marine Insurance for $44,000. U.S.

E. & O.E.

Royal Malting Co., Limited

J. Anderson,

Export Dept.

COMMERCIAL INVOICE

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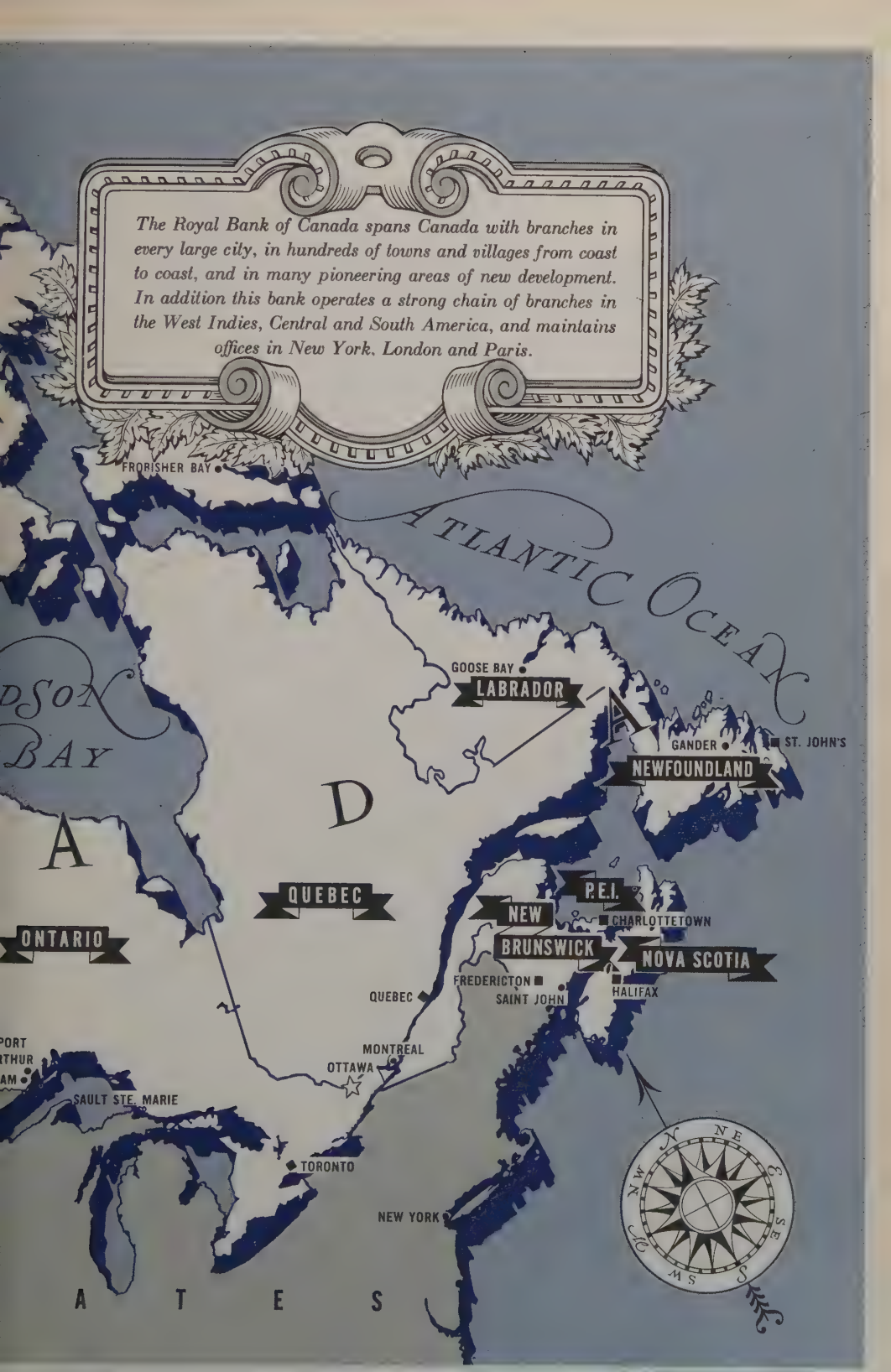
ALASKA
MAYO
YUKON
PORT RADIUM
NORTHWEST TERRITORIES
C
A
A
N
FORT CHURCHILL
BRITISH
COLUMBIA
ALBERTA
MANITOBA
EDMONTON
SASKATCHEWAN
VANCOUVER
VICTORIA
CALGARY
REGINA
WINNIPEG
PACIFIC OCEAN
U N I T E D S


The Royal Bank of Canada spans Canada with branches in every large city, in hundreds of towns and villages from coast to coast, and in many pioneering areas of new development. In addition this bank operates a strong chain of branches in the West Indies, Central and South America, and maintains offices in New York, London and Paris.
FROBISHER BAY
ATLANTIC OCEAN
GOOSE BAY
LABRADOR
GANDER
ST. JOHN'S
NEWFOUNDLAND
QUEBEC
P.E.I.
CHARLOTTETOWN
NEW BRUNSWICK
NOVA SCOTIA
ONTARIO
FREDERICTON
SAINT JOHN
HALIFAX
QUEBEC
MONTREAL
OTTAWA
SAULT STE. MARIE
TORONTO
NEW YORK
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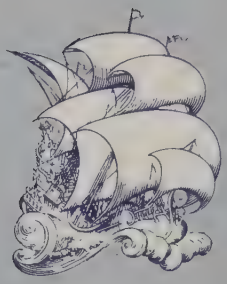
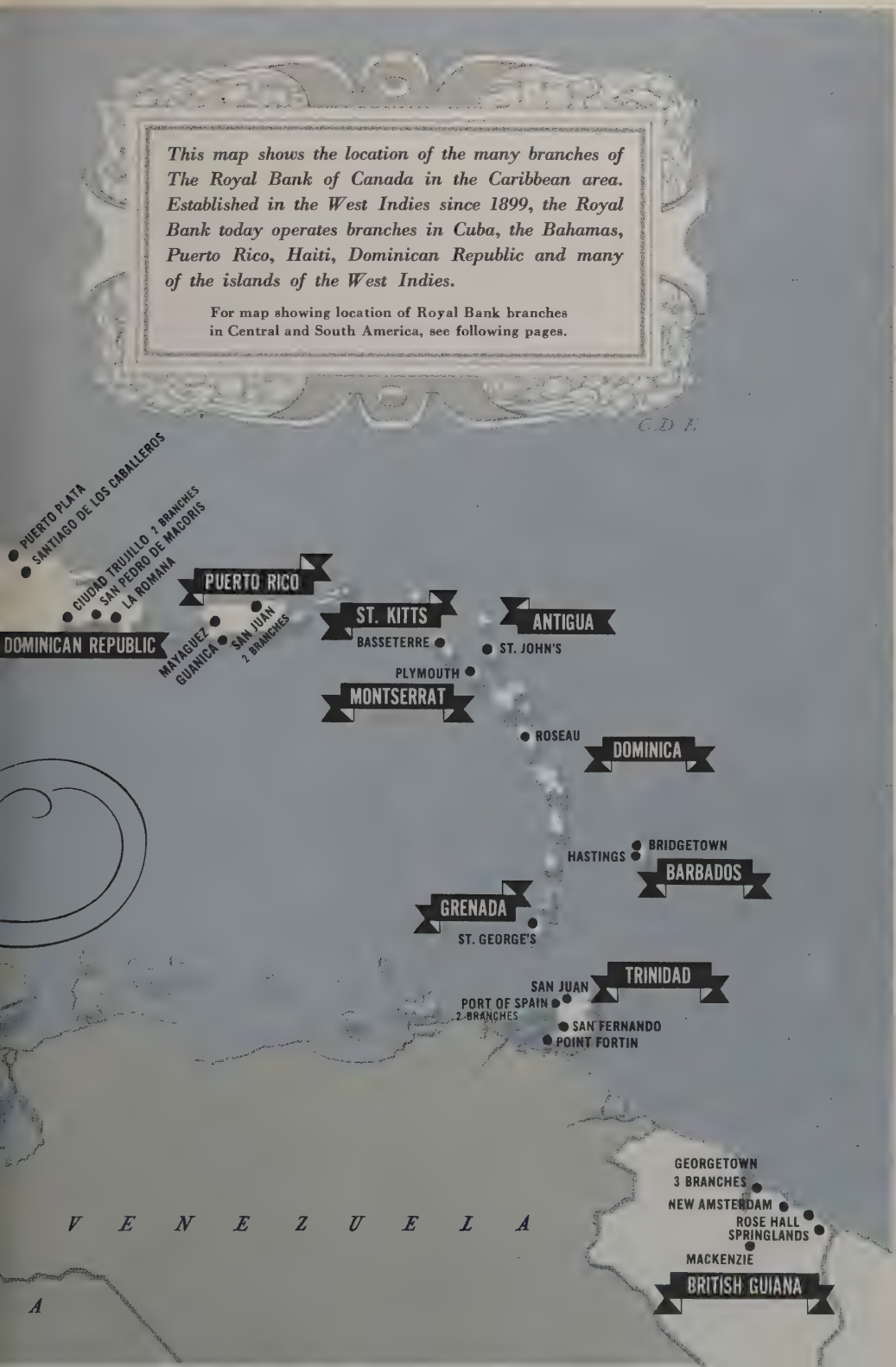
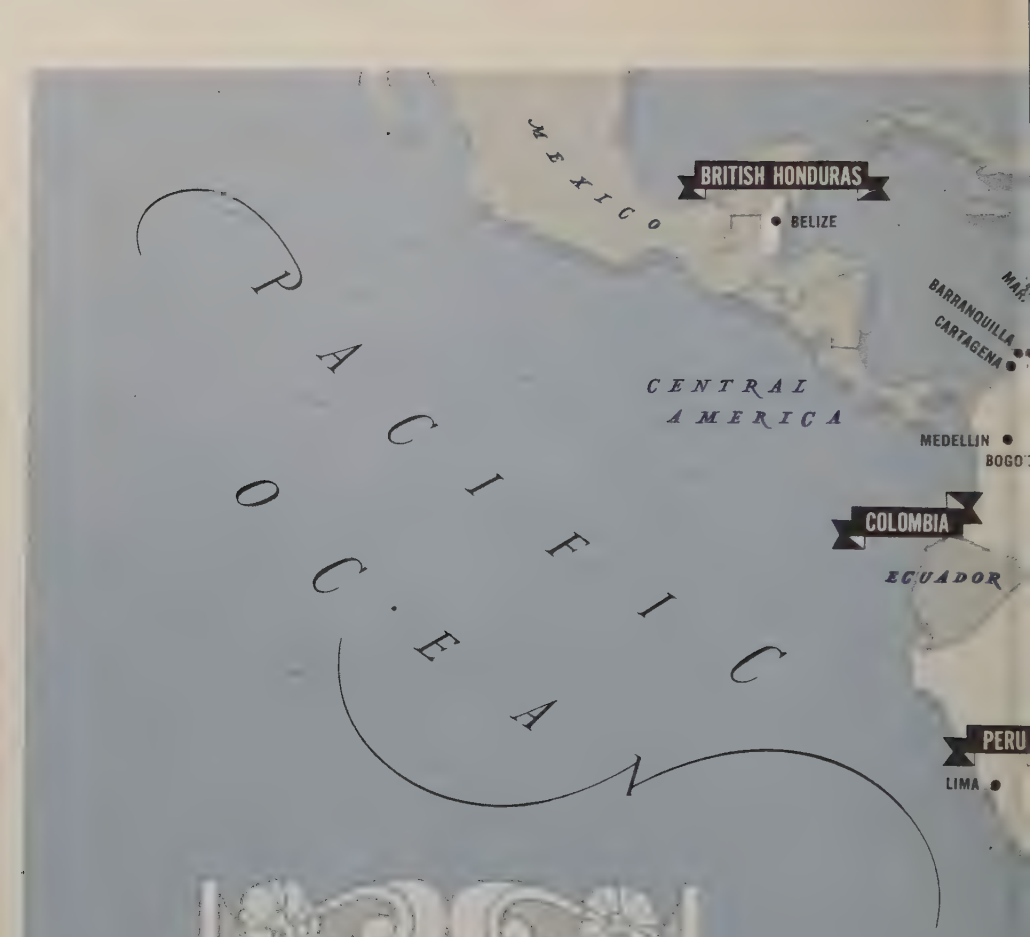


BIMINI
HARBOUR ISLAND
NASSAU
4 BRANCHES
HATCHET BAY
HAVANA
9 BRANCHES
CUBA
SAGUA LA GRANDE
SANTA CLARA
BAHAMAS
MORON
PINAR DEL RIO
CAMAGUEY
SANCTI SPIRITUS
CIEGO DE AVILA
HOLGUIN
GUANTANAMO
BAYAMO
SANTIAGO DE CUBA
PORT-AU-PRIN
MONTEGO BAY
KINGSTON
BRITISH HONDURAS
BELIZE
JAMAICA
CARIBBEA
SEA
CENTRAL AMERICA
COLOM


This map shows the location of the many branches of The Royal Bank of Canada in the Caribbean area. Established in the West Indies since 1899, the Royal Bank today operates branches in Cuba, the Bahamas, Puerto Rico, Haiti, Dominican Republic and many of the islands of the West Indies.
For map showing location of Royal Bank branches in Central and South America, see following pages.
C.D.K.
PUERTO PLATA
SANTIAGO DE LOS CABALLEROS
CIUDAD TRUJILLO 2 BRANCHES
SAN PEDRO DE MACORIS
LA ROMANA
DOMINICAN REPUBLIC
PUERTO RICO
MAYAGUEZ
GUANICA
SAN JUAN 2 BRANCHES
ST. KITTS
BASSETERRE
ANTIGUA
ST. JOHN'S
PLYMOUTH
MONTSERRAT
ROSEAU
DOMINICA
HASTINGS
BRIDGETOWN
BARBADOS
GRENADA
ST. GEORGE'S
TRINIDAD
SAN JUAN
PORT OF SPAIN 2 BRANCHES
SAN FERNANDO
POINT FORTIN
GEORGETOWN 3 BRANCHES
NEW AMSTERDAM
ROSE HALL
SPRINGLANDS
MACKENZIE
BRITISH GUIANA
V E N E Z U E L A
A



The many important cities of Central and South America served by The Royal Bank of Canada are shown on this map. The Royal Bank has operated branches in Central and South America for over 40 years. Officers of the bank know the language and the people and their ways of doing business. This knowledge can be of practical value to anyone with business interests in the southern hemisphere.

WEST
INDIES
CARACAS
2 BRANCHES
ERTO LA CRUZ
PUERTO ORDAZ
UDAD BOLIVAR
GEORGETOWN 3 BRANCHES
NEW AMSTERDAM
SPRINGLANDS
ROSE HALL
VENEZUELA
DUTCH
FRENCH
MACKENZIE
BRITISH GUIANA
BRAZIL
RECIFE
BOLIVIA
PARAGUAY
SAO PAULO
SANTOS
RIO DE JANEIRO
URUGUAY
MONTEVIDEO
BUENOS AIRES
2 BRANCHES
ARGENTINA
ATLANTIC
OCEAN

Paris

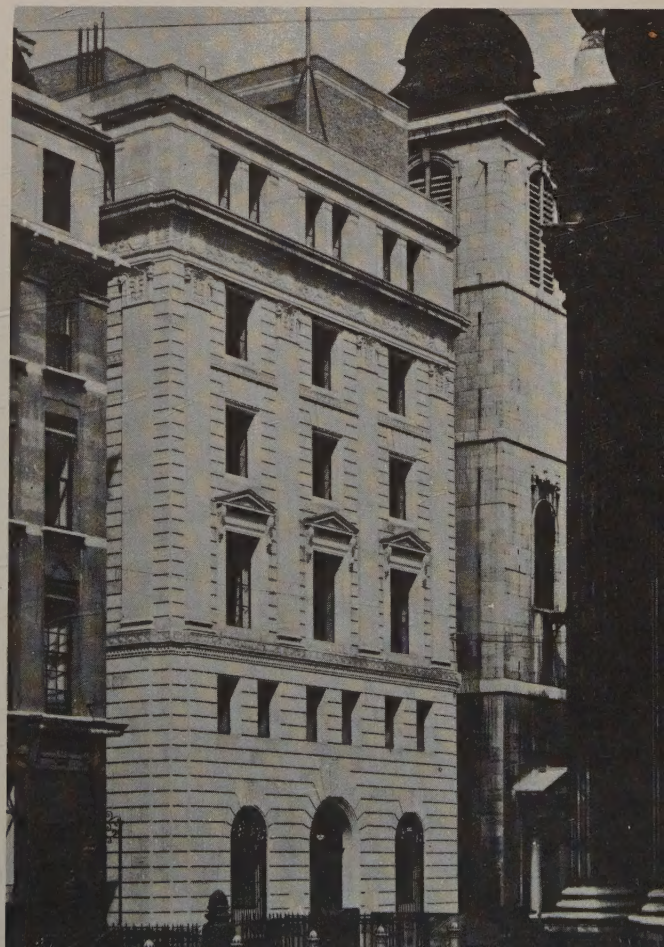
Paris office was established in 1919 and is located at 3 Rue Scribe. It is particularly convenient for travellers and others who have business to transact on the Continent.

New York

The Royal Bank's New York Agency, established in 1899, occupies its own building at 68 William Street. One of its important functions is to serve as a liaison between the bank's Head Office and American firms.

London

London "City" Branch, shown here, was opened in 1910. It is across the street from the Bank of England. Just off Trafalgar Square is our second London office — "West End" Branch.



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